INDIA AND IMPERIAL PREFERENCE

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A STUDY IN COMMERCIAL POLICY

BY

BALKRISHNA MADAN, M.A., PH.D.

Officer on Special Duty, Resources, Punjab Government
University Lecturer in Economics, Lahore
Member of the Executive Committee, Indian Economic Association
Member, Board of Economic Inquiry, Punjab

WITH A FOREWORD BY

MANOHAR LAL

Finance Minister and sometime Education Minister, Punjab Government
Formerly President of the Indian Economic Association
and Minto Professor of Economics, Calcutta University

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TO
THE MEMORY
OF
MY MOTHER

FOREWORD

In this monograph Dr Madan, an accomplished young economist, has attempted a critical study of the general policy and actual practice of Imperial Preference in India. The work constitutes a welcome addition to the very scanty literature on the subject, its high value lies in the vigorous and thorough analysis which the author has brought to bear on the whole mass of relevant facts and material The great importance of the study cannot be exaggerated—it touches the whole question of India's present economy, while opinion in the country is vehemently exercised on the many issues involved At the present moment it is of direct significance as the famous Ottawa Trade Agreement which laid the foundations of the present policy of preference is being superseded and a fresh agreement governing Indo-British trade is being fashioned There is no aspect of the many complex problems implicit in the large themes of protection and preference in this country today on which the author has not thrown sure and dependable light In the steady pursuit of this scientific aim he has not allowed himself for one instant to be deflected by clamorous sentiment raging on either side The result is a work of great sanity in a field of intense controversy

It is a privilege to be invited to write a Foreword to a work of this description It is not possible to follow in any detail the author in his systematic presentation of the history of opinion or in his close analysis of the effect on Indian trade of the working of the Ottawa Agreement during its brief period of existence The ideal present at the Conference at Ottawa was clearly stated by Mr Baldwin 'the expansion of Empire trade brought about as far as possible by the lowering of trade barriers as between the several members of the Empire' This definition of the objective was not exactly adhered to in actual agreements, but Dr Madan's general conclusion on the net effect of the Ottawa Agreement on Indian export trade cannot be resisted The really important

question, because it is the practical question, is whether with the change in British trade policy and an extensive system of Empire preferences, India did not gain in her export trade because of the Agreement. Several factors were in operation at the same time, but the clear conclusion reached is that on the whole the Agreement was a source of gain though of a modest magnitude. Further, 'the Ottawa Agreement between the United Kingdom and India served through the major part of its duration primarily as a measure of insurance against potential losses in the Empire markets'. This is a reassuring verdict, as it is also the most competent verdict hitherto available.

Another aspect of Dr Madan's study deserves notice He has analysed significant trends in world and British Empire trade to furnish, to use his own words, 'the setting for a somewhat detailed examination of the trade of a primarily agricultural raw material exporting country like India'. The analysis is rapid and tersely presented, but has been carried out with striking scientific rigour; and the causes of relative expansion of inter-Imperial trade have been set forth with an unerring hand India's share in the increase is clearly indicated and throughout related to controlling circumstances The implications of this analysis and of certain other broad facts of Indian economy have been made the basis of general reflections on the country's economic future The need for the establishment of proper relationship between commercial and industrial policy is emphasized, and the duty of the State in this regard is indicated. Exclusive attention to foreign trade is likely to affect the correct appreciation of the general problem of the country's economic and industrial development The big issue of national planning for a country still largely dependent on agriculture—and where industry in the modern sense is of comparatively recent origin, requires to be faced apart from questions of protection and preference

In estimating the 'costs' of preference on imports, the author reaches the conclusion that, altogether, alarming estimates of the 'loss of revenue' or 'burden on the consumer' are based on error and do not stand scrutiny. The excess of the burden on the consumer over the loss of revenue was

not greater than a few lakhs Dr Madan has abundantly established this satisfactory conclusion.

I must resist further temptation to detailed reference. Dr Madan's work will take a high place in the growing volume of valuable studies in Indian Economics It will apply a much needed corrective to a vast mass of loose thinking that prevails at present on the subject of our trade policy. It will also furnish an example of care in thought and analysis, as of the proper method of condensation of material, to the serious Indian students of our economic life Personally I lay down his work with the hope that the author will address himself to his subject at some future date on a more generous factual scale As trade policies are being reconsidered and refashioned in India and as world economic factors are undergoing rapid changes the occasion for a more extensive treatment should not be very distant

MANOHAR LAL

SIMLA

May 1939

PREFACE

The aim of this monograph is to make a critical review of the policy and practice of Imperial preference in India With this object an analysis is made of the Trade Agreement concluded at Ottawa between the United Kingdom and India, its genesis, working and effects on Indian trade, industry, the consumer and State revenues during the quinquennium 1932-3 to 1936-7 and in some respects during 1937-8 (for which provisional figures only are available as yet) The end of the year 1936-7 forms an appropriate closing point for the main analysis for two reasons It marks the culmination of a broad rising trend of economic activity, which provides a uniform general background for the treatment of export trade: after that, the recession introduces a wide new factor into the situation Secondly, with the separation of Burma from 1 April 1937, the foreign trade statistics of British India for 1937-8 would not admit of direct comparison with those of earlier years

There are few other questions on which opinion in India has been shaped so much by sentiment and so little by an objective study of economic facts Such a study it is the purpose of the present work to attempt.

Until recently the consideration of Imperial preference in India was at a purely theoretical stage A system of differential duties had no doubt been in existence before 1931, but it was avowedly an incident of the protective policy of the country Now the first stage of a large scale experiment in Imperial preference is nearing conclusion No complete review of its working is available Besides the two Government *Reports* on the working of the Scheme of Preferences up to the end of 1934-5, a few pamphlets practically exhaust the literature on the subject

Perhaps a few words may be added on the scope and plan of the work In the first chapter the evolution of Imperial preference is briefly traced in the case of the United Kingdom and India An examination is then made of trends in the

composition and distribution of world and Empire trade and of the causes of those trends which are of special significance for a study of recent tendencies in Indian trade. The recent tendencies in the composition and distribution of India's export trade form the subject-matter of the third chapter. There a survey is also made of such recent developments in the commercial policy of Germany and France as have a particular bearing on the export trade of India

The preferred exports are dealt with at some length in the succeeding two chapters Next, the preferred exports as a whole are considered together with non-preferred exports, and an attempt is made to estimate the measure of gain of trade which may be ascribed to the Ottawa preferences. In this connexion the incidence of the trend to bilateralism on the trade of India, as well as the bearing on this trend of British protectionism and Imperial preference, is examined. In another chapter recent changes in the distribution of the import trade and the nature and probable magnitude of the cost of import preferences are considered.

The principles and practice of a special form of Imperial economic co-operation, namely Imperial industrial co-operation, are critically reviewed in two chapters, one of which deals with the special cases of Cotton and Iron and Steel in India

In the end an attempt is made to define the general lines of a commercial policy in keeping with India's general economic policy, and suited to her needs and conditions The outlook for international trade and Empire economic policy are briefly reviewed, and the popular demand for bilateral trade treaties is scrutinized Certain fundamental as well as immediate considerations that would condition India's attitude towards Imperial preference at the present time are also indicated

This book was all but printed when a new Agreement to replace the Ottawa Agreement was concluded between His Majesty's Government and the Government of India on 20 March 1939 The new Agreement is briefly noticed in a Postscript and summarily examined in the light of the actual results of the working of the Ottawa Agreement presented in these pages If the only sound basis for forecast of the future

is experience of the past, a clear appreciation of the effects of the Ottawa Agreement should provide the right approach to a proper appraisal of the merits of the new Agreement Besides, the scope of preferences on Indian exports remains substantially unaltered in the new Agreement it may be hoped, then, that the analysis of trade in particular commodities made here will have not only an historical, but some practical interest The general observations on Imperial preference and industrial co-operation and bilateral trade agreements require little modification.

I am conscious of inadequate treatment of some aspects of the subject, but offer my results in the hope that they may provide a basis for further treatment and fuller inquiry.

I take this opportunity to express my obligations to the Honourable Mr Manohar Lal, Finance Minister, Punjab Government, Professor Brij Narain, Dr L C Jain, Professor of Economics, University of the Punjab, and Dr E D Lucas for going through the whole or parts of this work and offering helpful suggestions.

To Mr Manohar Lal I am specially indebted for contributing a very valuable Foreword Dr Jain, besides, kindly revised the proofs for press My thanks are also due to the Librarian and staff of the Punjab University Library, Lahore, for their unfailing courtesy and readiness to comply with my wishes

Unless otherwise stated, the source of statistics used is United Kingdom or Indian Trade Returns

B K MADAN

LAHORE
March 1939

Indian Units

1 lakh	=	100,000
1 crore	=	100 lakhs or 10 millions
1 rupee	=	1s. 6d.
Rs. 1 lakh	=	£7,500
Rs 1 crore	=	£750,000

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Chapter I

INTRODUCTORY

1 The Evolution of Imperial Preference: General

The story of the evolution of Imperial preference first in the Dominions and later in the United Kingdom has been often and competently narrated The compulsory Imperial preference of the seventeenth and eighteenth centuries, under which a uniform system of trade regulations was maintained by the common legislative authority of the Parliament at Westminster, came by a series of eventful developments to be replaced by the modern system of voluntary preferential tariff arrangements, which culminated in the simultaneous conclusion of twelve separate agreements at the Imperial Economic Conference at Ottawa The Declaration of Independence by the thirteen American colonies in 1776, the publication of the *Wealth of Nations* in the same year; the industrial revolution starting from England; the mid-nineteenth century triumph of free trade in the Empire, the grant of political freedom to the Colonies and the completion of fiscal freedom of the Dominions; the revolution in world transport and commerce during the latter part of the nineteenth century and the resulting growth of giant States like the United States, Russia and Germany, the initiative of Canada in the direction of gratuitous preference for British goods, and the persistent pressure of successive Colonial and Imperial Conferences towards some form of Empire tariff preferences; the War and all it brought in its train, the diffusion of industrial activity and the drive towards economic autarchy, in particular during the world economic crisis—these were among the events and forces which destroyed the old and created the new order of Imperial preference

The new system, which recognizes the complete fiscal sovereignty of the Empire parties to preferential agreements, their absolute freedom to regulate the tariff and other instruments of trade control in the interests of their domestic economy, has, however, by no means completely replaced the old.

The Colonies in the dependent Empire still bear the same relation to the mother country as the Dominions of today did in the later part of the eighteenth or early part of the nineteenth century. The nature and extent of the benefits offered in Colonial tariffs to the United Kingdom, the Dominions and India in return for the advantage of admission to their preferential tariffs, is regulated by the Colonial Office.

The United Kingdom and Protection and Imperial Preference

We may start with a preliminary but fundamental question: What led the United Kingdom to abandon her century-old adherence to free trade and revert to protection and Imperial preference?

The decisive drift began with the War. At that time, important military considerations lay behind the movement towards the economic co-ordination of the Empire through preferential trade

The more important reasons, however, which impelled the United Kingdom towards protection and preference, after the War, were of a strictly economic character

The basic assumption underlying the policy of Free Trade in Britain was a system of international division of labour in which she was the 'workshop of the world', which very largely served as her agricultural farm She supplied the other countries with the manufactures of their requirement, and they in turn produced and provided her with food for her crowded population and raw materials for her specialized industry. This system, which had already been undergoing important changes during the closing years of the nineteenth century, was further seriously undermined after the War as a result of familiar developments.

The weakness of Britain's position in the world markets was reflected in the permanent slump in her staple export trades Her return to the gold standard in 1925 at the pre-War parity left her cost-structure out of relation with the international price level and added to the hardship of her industries The trend of the visible balance of trade was increasingly unfavourable, with rising imports and declining exports The advent of the great slump increased the strain on her economic

system The unemployment figures soared, and the burden of the dole grew rapidly at a time when the springs of enterprise were being sapped by a heavy weight of taxation, and the sources of revenue were drying up An unbalanced budget was an unwelcome addition to an increasingly adverse balance of international payments, aggravated by sinking income from foreign investments

Twin Movements

The United Kingdom was driven off gold[1] and into protection and Imperial preference.[2] In the case of the United Kingdom, indeed, it is difficult to think of the one without the other, for the narrow island limits of Britain form too small a basis for a self-contained trade policy : self-sufficiency is for her an entirely unpractical ideal [3]

The great change, which was foreshadowed by the Abnormal Importations (Customs Duties) Act, 1931, and the Horticultural Products (Emergency Customs Duties) Act, 1932, was effected by the Import Duties Act That Act imposed from 1 March 1932, a 10 per cent duty on all non-Empire goods not already subject to duty or not included in the attached Free List [4] A Tariff Advisory Committee was also set up

[1] The factors enumerated above were undoubtedly among the deep underlying causes of the monetary crisis

[2] It is not implied that the adoption of protection and Imperial preference was inevitable or as inevitable as the departure from gold The twofold policy was, however, part of the economic creed of the predominant party, and the prevailing conditions afforded greater justification for its adoption than any previous occasion

[3] 'The notion that Great Britain having parted with free trade could orient her fiscal policy on anything but the Empire is purely academic A national protective economy which makes no use of the possibilities of Empire is outside the pale both of politics and policy'—C R Fay, *Imperial Economy and Economic Doctrine*, 1934, pp 141-2

[4] In all £570 millions worth of goods (or considerably more than half of 1930 imports) were made liable to duty under various heads as follows · foodstuffs, £240 millions (£75 millions in 1930), raw materials, £55 millions (none in 1930), manufactures, £275 millions (£75 millions in 1930), (Ronald Findlay, *Britain under Protection*, 1934, p 21) The most prominent examples of commodities initially exempted from duty are wheat, maize, meat, bacon, tea, raw cotton, wool, flax, oil-seeds, hides and skins, newspapers, periodicals, books, newsprint, woodpulp, raw rubber, metal ores, iron and steel scrap, unwrought copper and wooden pit-props Exemptions might also be granted to goods imported for use in the shipping industry

Of foreign imports in 1930, 83 per cent were admitted free of duty As a result of the Import Duties Act, the Free List had shrunk to 30 per cent After Ottawa the Free List was only 25 per cent Nearly 58 per cent of the imports were covered after Ottawa by the protective duties (*Economist*, Ottawa Supplement, 22 October 1932).

to advise the Treasury regarding increases of duties on any goods upon which 10 per cent duty might be deemed insufficient, which were of a luxury character, or which could be produced in adequate quantities in the United Kingdom. Additional duties on many articles have subsequently been imposed. Goods from the Colonies, Protectorates and Mandated Territories were to be exempt from both the general 10 per cent tariff and all additional duties Goods from the Dominions and India were likewise to be exempt until 15 November 1932, but might become dutiable thereafter, unless in the meantime satisfactory reciprocal tariff agreements were concluded with them.

The adoption of a general tariff by Great Britain made possible a definite advance in the direction of Imperial preference It was also an avowed aim of the British tariff to facilitate the lowering of tariff barriers in foreign countries by offering to reduce it in return [1]

The Ottawa Agreements

First as regards the steps taken towards Imperial preference. Seven of the agreements signed at Ottawa in August 1932, were between the United Kingdom on the one hand and Australia, the Union of South Africa, New Zealand, India, Newfoundland, Southern Rhodesia and Canada respectively on the other [2] They stipulated for the exchange of preferences, whether by continuance of free entry, imposition of fresh duties, maintenance of the existing tariff, guarantee of specified margins of preference, or grant of quotas. A further undertaking on the side of the United Kingdom was the securing to the Dominions of participation in the preferential tariffs of the Colonies Besides, the agreements contained certain general clauses designed to secure conditions of fair competition for United Kingdom producers with producers of Canada, Australia and New Zealand in their home markets [3] In return, there was the implicit assurance of continued free

[1] cf Mr Chamberlain's speech introducing the Import Duties Bill in the House of Commons, 4 February 1932

[2] Of the remaining five agreements three were concluded between Canada on the one side and Eire, the Union of South Africa and Southern Rhodesia respectively on the other, and two between South Africa and Eire, and South Africa and New Zealand

[3] See below Chapter VIII, 2

access to the United Kingdom market for Dominion primary products. Though less widely known at the time, these clauses were regarded by competent observers as potentially the more important half of Ottawa

Principles and Practice

The actual agreements were not quite consistent with the avowed aims of the Ottawa Conference as set forth by leaders of various Delegations The first aim of the Conference, in the words of Mr Baldwin, was 'to clear out the channels of trade among ourselves', and on behalf of the British Government he placed before the Conference as its general objective 'the expansion of Empire trade, brought about as far as possible by the lowering of trade barriers as between the several members of the Empire'.[1] Actually, in order to give preference to Empire producers, Britain agreed to maintain or impose duties on a considerable range of her imports of primary products On the other side, too, the Dominions gave preference probably as much by higher tariffs against foreign goods as by lower tariffs against the goods of the United Kingdom Thus, the net effect of tariff adjustments made to give effect to the undertakings of Ottawa was more to restrict Empire-foreign trade than to free inter-Imperial trade

Again, the understanding implied in general clauses of the agreements on the broad principles that should underly and regulate Empire trade appeared full of promise But the success of a policy of complementary development such as is implied in this principle has been necessarily qualified by the development of agricultural protection in Britain and protection of secondary manufacturing industry in the Dominions.[2]

Bilateral Agreements

Following the reorganization of trade relations within the British Empire, the United Kingdom concluded a number of bilateral trade agreements with foreign countries, as part of a policy of regulated trade development Notable among such foreign countries were the Scandinavian countries, Finland, the Baltic States, the Argentine, Poland and the Soviet

[1] Cmd 4175, 1932.
[2] See below Chapter VIII, 2

Union, as well as France, Germany and Italy, with which agreements of less comprehensive character were concluded. The principles and methods of different agreements differed with the trade conditions that existed between the United Kingdom and any given country. In general the United Kingdom had an unfavourable balance of trade with most of the above countries[1] She used the strong bargaining position thus given, reinforced by the powerful weapon of her new tariff and the power of quantitative regulation of certain agricultural imports, to push her exports to these countries A closer balance was sought to be established between exports and imports by confronting the other party with a reduction of exports to the United Kingdom, unless it took steps to increase its imports from the latter.

The leader of Free Trade was thus in the van of the movement towards bilateralism in trade. A moderate measure of success undoubtedly attended this policy It played a limited part in the revival of export trade and in the improvement of the United Kingdom trade balance. But its effects appear to have largely worked themselves out And no policy which does not secure a liberation of world trade can now give complete satisfaction.

The recent Anglo-American Trade Agreement signed in Washington on 17 November 1938 marks an important advance in this direction It is a landmark in the history of liberal, formal bilateralism underlying the recent United States trade policy (see below Chapter X, 2, 3), as distinct from the restrictive, substantive bilateralism, characteristic of German commercial policy, and, in a lesser degree, of many of the agreements made by the United Kingdom herself.

2 The Evolution of Imperial Preference in India

Ruling Factors

The history of the idea[2] of Imperial preference in India is a record of the arguments adduced from time to time by the

[1] In 1932, the United Kingdom imported from the group of countries comprising the Scandinavian and Baltic States, Finland, the Argentine, and Russia, goods to the value of £150 millions against exports (including re-exports) valued at £49½ millions

[2] Until recently the Indian tariff system had been little affected by Imperial preference, the discussion of which was in a purely theoretical stage

Government and leading economic thinkers of this country against its introduction in her fiscal policy. Their attitude towards the question has in a large part been shaped by a consideration of the shifting equilibrium of four or five underlying factors: (1) the character of India's trade; (2) the direction of India's trade, including the state of her trade balance, (3) the tariff and trade policy of the United Kingdom; (4) the commercial policies of foreign states, (5) the extent of fiscal autonomy enjoyed by India.

Views of the Government of India on Preferential Tariffs, 1903

The first occasion to define India's attitude towards Imperial preference arose in 1903, when the Government of Lord Curzon were invited by the then Secretary of State to comment on the Imperial preference resolutions of the London Colonial Conference, 1902. The Indian authorities outlined the factors affecting India's export trade at the time[1] India's exports, consisting largely of important, if not necessary, raw materials, were for the most part admitted into foreign markets either free or on payment of moderate uniform duties The purpose of a reciprocal preferential arrangement generally being to secure freer entry for domestic exports, it was obviously unnecessary, because 'without any such system India already enjoyed a large, probably an exceptionally large, measure of the advantages of free exchange of exports and imports' (Dispatch)

The character of India's export trade as well as the commercial policies of foreign States thus advised against the adoption of a tariff scheme based on discrimination.

Imports into India were subject only to revenue duties without any preferential or protective intention. Again, three-fourths of the imports were derived from the Empire, and about the same proportion of exports were sent to foreign countries This fact at once threatened the largest source of central revenues from import duties[2] and increased the liability of the export trade to loss from retaliation at the hands of

[1] Dispatch dated Simla, 22 October 1903, from the Government of India to the Secretary of State

[2] Since the imports from the Empire would under any preferential scheme be admitted at low rates of duty

foreign countries, owing to discrimination against their goods in the Indian tariff

Another important consideration which weighed with the Government was the position of India as a debtor, the greater part of whose net obligations are payable in a currency different from that in which her revenues are collected This made a favourable balance of trade essential for preserving her national solvency. The danger of reprisals by India's important foreign customers was emphasized by this consideration, particularly as her balance of trade with the British Empire was adverse, while her trade with foreign countries yielded a great excess of exports over imports [1]

The nature of the direction of India's export and import trade thus minimized the probable benefits and multiplied the possible dangers of a differential tariff system.

As regards the converse side of the question, the Government of India thought that in view of the prevalence of effective foreign competition over a wide range of imports, a substantial preference would be of material benefit to the British manufacturer.

It may be pointed out that the scheme of Imperial preference which the Government of India rejected as unsuitable to the circumstances of India, was very unlike what the Dominions, who passed the Resolution of 1902, preached and practised Protection, or restriction of imports from all sources in the interest of the home industries, first, preference, or an additional measure of restriction for non-British imports, next—that was the essence of the protection *cum* preference proposal sponsored by the Dominions Such an assumption was unthinkable for the Government of India. India did not as yet possess the measure of fiscal freedom which enabled the Dominions partly at least to adapt the preferential scheme at once to the requirements of their protective policy and the satisfaction of their Imperial sentiment [2]

[1] Another important consideration which doubtless conditioned the attitude of the Government of India towards Imperial preference was the inability of the United Kingdom under her existing tariff and fiscal system to reciprocate the preferences that might be granted to her in India

[2] The participation of India in a scheme of Imperial preference on the same footing as self-governing Colonies was dismissed in the Dispatch as 'not within the sphere of practical politics and therefore beyond the range of present discussion'

The Government of India maintained an attitude of consistent opposition to a general system of Imperial preference on many subsequent occasions In view of the dependent political status of the country, however, their advice was not unnaturally tempered somewhat by consideration of British interests as well [1]

A Change in the Background

In 1921 His Majesty's Government accepted the famous recommendation of the Joint Select Committee on the Government of India Bill for the acknowledgement of a convention in regard to the fiscal autonomy of India.[2] This changed the background of Imperial preference in one vital respect. India, if she chose, could now have a protective tariff simultaneously with Imperial preference She could regulate the exact form in which preference might be granted. Prospective revenue considerations as such need not have debarred her from entering into a preferential scheme [3]

The Indian Fiscal Commission on Imperial Preference, 1922

But the fundamental conditions of India's economic situation had not materially altered since the examination of the question in 1903 by Lord Curzon's Government The Indian Fiscal Commission, set up in October 1921, reviewed

[1] One of the reasons advanced in the India Office memorandum to the Colonial Conference of 1907 against the introduction of a protective and preferential tariff in the United Kingdom was that it would lead to demands for protection by Indian industries, 'which would be difficult to refuse, and injurious to prominent industries in the United Kingdom, to grant' Sir James Mackay (later Lord Inchcape) speaking on behalf of India in a similar strain in the Conference pointed out that 'it would be difficult to offer a logical opposition to such a demand' for protection on behalf of Indian industries (*Report of Proceedings of the Colonial Conference*, 1907, Cd 3523, p 301)

[2] Meanwhile, the first step had been taken by the Government of India in the direction of preferential trade in September 1919, when an export duty of 15 per cent was imposed on hides and skins with a rebate of 10 per cent on exports to the countries of the Empire It was a solitary measure, not part of a scheme of Imperial preference (Parallel instances were furnished by the imposition in April 1916, of a duty of 3¾ per cent on the export to non-British countries of tin ore from Nigeria, the Gold Coast and Sierra Leone, with effect from 20 October 1919) The arrangement of a duty and rebate did not work satisfactorily, however, and in March 1923, the duty was reduced to a uniform rate of 5 per cent

[3] India was free to raise her revenue tariff as high as she liked and could grant preference, if she chose, by raising the general rate The 'loss of revenue' involved by a differential tariff is, however, a different matter. See below Chapter VII, 4

the question at some length. They observed a relative decline since 1903 in the importance of the British Empire in the trade of India.[1] They remarked that the advantage of a preference was likely to be more important for imports of manufactured goods into India than for Indian exports of raw products.[2]

On the other hand, again, the Commission thought that India could not grant anything of great value without imposing a serious burden on herself, and that it would not be reasonable for her to incur such a burden. The policy of discriminating protection which the Commission recommended for the industrial development of the country necessarily imposed a burden on the consumer, and it was not considered proper that she should be 'called upon to bear an additional burden on top of this for the furtherance of interests which are not primarily Indian'.[3]

Discriminating Preference

While a general system of preference was thus definitely ruled out, the Commission recommended selective and discriminating preference on a limited number of articles after examination by the Tariff Board, the governing principles in the application of such policy to be:

(1) the approval of the Legislature;
(2) the maintenance of the required protection for Indian industry; and
(3) the avoidance of appreciable economic loss to India on balance.

Subject to these conditions, preference to United Kingdom goods was to be extended as a free gift. In the case of other parts of the Empire, however, preference might only be granted on a basis of reciprocity by mutual agreement.

The reason which led the Commission, economic objections

[1] India received two-thirds (66 6 per cent) of her imports from, and sent over one-third (37 3 per cent) of her exports to, the British Empire, against three-fourths (75 per cent) and nearly one-half (47 per cent) respectively at the time of Lord Curzon's Dispatch

[2] The latter found their markets ready made, being usually admitted free into foreign markets, while the former always met with keen competition and the markets for them had to be developed and carefully nursed (*Report of the Indian Fiscal Commission*, 1922, p 108).

[3] ibid, p 116

notwithstanding, to recommend a modest advance towards Imperial preference lay in the broader obligations of Imperial partnership and political sentiment [1]

The Minority's View

Those who took a different view of the reciprocal obligations of Imperial partnership questioned this standpoint. the minority of the Fiscal Commission made their support of Imperial preference conditional on the attainment by India of full responsible Government and an equal status within the Empire For, as they observed, the principle of Imperial preference implies uncontrolled power to regulate the preference in the interests of each country.[2]

In the Imperial Conferences of 1923, 1926 and 1930, the Indian representatives explained the difficulties in the way of India joining any general scheme of tariff preference within the Empire, though they showed their concurrence with a policy of judiciously limited preference [3]

Differential Duties

On two occasions between 1923 and 1931, Acts were passed by the Indian Legislature imposing lower duties on United Kingdom goods than on similar goods of foreign origin. The

[1] As they observed, 'While we do not ignore the material side of the policy of Imperial preference, we believe that the sentiment with which it is associated is even more important Adhesion to the policy of Imperial preference is coming to be regarded as a test of loyalty to the Empire, as a proof that the various parts of the Empire look beyond their own immediate interests and recognize their position as parts of a great whole We would not have India standing in a position of moral isolation within the Empire a free gift from India, however small, would be welcomed as a gesture of friendship and as a proof that India realized her position as a member of the Empire'—*Report*, pp 118-19

[2] cf *Final Report of the Balfour Committee on Industry and Trade*, 1929, p. 23 'The modern practice of preferential Customs treatment, as it has grown up in the self-governing Dominions, is founded on two basic principles of equal importance—(*a*) complete autonomy in the construction of tariffs so as to suit the needs and conditions of the country concerned, (*b*) so far as is consistent with the above principle, the admission of goods of British origin on specially favourable terms as compared with imports from other countries'

[3] Thus Sir Charles Innes stated before the Imperial Conference of 1923 that the economic objection against a general preferential tariff did not apply to a policy of 'some measure of preference in respect of some of the items of our tariff schedule' which was 'perhaps a possible line of advance' Similarly Sir Geoffrey Corbett declared before the Imperial Conference of 1930 that the Government of India 'must reserve complete freedom to deal with each case as it arises'—Cmd 3717, 1930

first of these Acts was the Steel Industry (Protection) Act, 1927, which was to remain in force till March 1934. The second was the Cotton Industry (Protection) Act of 1930. 'In both cases the differentiation in the duties was held to be justified purely in the interests of India (judged presumably by considerations of discriminating protection). The arguments by which participation in a general scheme of tariff preferences might be justified were not invoked on either occasion, and the decisions taken did not commit India in any way to the adoption of such a scheme."[1]

The Indian Delegation to the Ottawa Economic Conference carefully recounted all the grounds detailed above for the uniform opposition on behalf of the Government of India to a general scheme of tariff preference within the Empire. Yet, less than six months later, general preference for the goods of the United Kingdom was a definite part of the Indian tariff system, on the very recommendation of the Indian Delegation

The Change in British Fiscal Policy

The underlying motif of a change in India's fiscal policy is to be found in a change in the British fiscal policy. The definite adoption of Imperial preference by Britain as well as the other Empire countries, called for serious reconsideration of India's attitude to this whole question. It 'created an entirely new situation for India . . It was no longer a question of what India stood to gain (by joining a general scheme of Imperial preference), but of what she stood to lose'[2] by standing apart from it

The United Kingdom was India's largest single customer She was now in a position, as she never had been before, to reciprocate the preferences granted her by similar preferences in her own tariff. The exclusion of India from a common preferential arrangement including the United Kingdom, Dominions and Colonies would have been a serious matter for her, the more so at a time of declining trade, increasing restrictions and shrinking markets.

[1] *Report of the Indian Delegation to the Imperial Economic Conference at Ottawa*, p 7 See below Chapter VIII, 3

[2] ibid, p. 8.

India's exports of primary foodstuffs and raw materials had to compete directly or indirectly with similar exports from many other Empire countries. Even in regard to commodities of which India had a practical monopoly, her trade was increasingly exposed to the keen competition of substitutes, natural or synthetic. The position of some of India's exports of manufactured goods, too, like woollen carpets and rugs, appeared vulnerable in the United Kingdom market. The United Kingdom, moreover, had the powerful weapon of adjusting Colonial tariffs which might have been used against India in the event of her inability to enter into agreement with that country

Altogether the fear of an imminent loss of Empire markets practically drove the Government of India to improvise a scheme of preferences, necessarily somewhat in haste, in order to safeguard the position of India's exports to the Empire. The United Kingdom-India Agreement concluded at Ottawa was, thus, not the result of any decision to make a bold bid for new and wider markets. It was framed largely as a measure of insurance against apprehended losses.

United Kingdom-India Trade Agreement

The United Kingdom-India Agreement provided for the grant of a preference of 10 per cent (7½ per cent on motor vehicles) on a large number of commodities imported into India from the United Kingdom, and a similar preference of 10 per cent in most cases on many articles imported into the United Kingdom from India, varying amounts of specific margins of preference on certain other Indian commodities, and free entry from all sources of a few Indian commodities on which a direct preference was not granted for various reasons The Agreement was to continue in force until six months after notice of denunciation had been given by either party.

The Agreement was ratified by the Indian Legislative Assembly in November 1932, provisionally for a period of three years The preferences on the Indian side were granted by the Indian Tariff (Ottawa Agreement) Amendment Act, 1932, which came into operation on and from 1 January 1933. In the United Kingdom effect was given to the

agreement by (i) the order continuing free entry after 15 November for those Indian products which were already admitted free by virtue of the Import Duties Act; and (ii) the Ottawa Agreements Act imposing on certain foreign products specific or *ad valorem* duties, which became operative from 1 January 1933, and were later increased in certain cases on the advice of the Tariff Advisory Committee.

Movement for Bilateral Trade Treaties: The Agreement Denounced

Soon after the conclusion of the Ottawa Agreement, a powerful movement of popular, commercial as well as economic, opinion began developing in favour of the conclusion of bilateral trade agreements with India's important customers including the United Kingdom—definite in objective, limited in scope, reciprocal, and on a basis of exchange of equal favours.[1] There was a growing feeling that the omnibus Ottawa Agreement with its long schedules of preferences on imports hindered the conclusion of suitable trade treaties with other countries. The feeling found definite expression in the Legislative Assembly on 30 March 1936, when the following motion was carried by 70 votes to 65:

'This Assembly recommends to the Governor-General in Council that the Ottawa Agreement dated the 20th August 1932, be terminated without delay and notice of denunciation be given in terms of Article 14 thereof. The Assembly further recommends that the Government of India should immediately examine the trend of trade in India with various other important countries and the United Kingdom and investigate the possibility of entering into such bilateral trade treaties with them whenever and wherever possible to bring about the expansion of export trade of India in those markets and submit such treaty or treaties for the approval of the Assembly.'[2]

[1] C N Vakil and M C. Munshi, *Industrial Policy of India*, 1934, p 69, *Indian Journal of Economics*, April 1937, article by C N Vakil on 'Tariff Policy in India', *Servant of India*, January-March 1936, articles by D R Gadgil on 'The Ottawa Agreement', *Indian Economist*, 1936, a series of articles on 'Trade Treaties'; Annual *Reports* of the Indian Chamber of Commerce, and Federation of Indian Commerce and Industry for the last three years, Minute of Dissent to the *Report* of the Select Committee of the Assembly, which examined the first year's working of the Scheme of Preferences

[2] *Indian Legislative Assembly Debates*, March 1936.

The Government of India gave six months' notice to terminate the Agreement on 13 May following, and this notice was accepted by His Majesty's Government in the United Kingdom on the same day The Agreement was subsequently extended subject to termination at three months' notice by either side unless it was replaced by a new agreement.

After protracted negotiations a new agreement to replace the Ottawa Agreement was signed between His Majesty's Government and the Government of India on 20 March 1939. The Indian Legislative Assembly, after a full-dress debate lasting for two days, rejected on 28 March, by 59 votes to 47, the motion of the Indian Commerce Member that the new Indo-British Trade Agreement be approved On 30 March, the Council of State approved the Agreement by 28 votes to 10. Announcement had already been made that the Ottawa Agreement would terminate on 31 March 1939 The new Agreement has come into force with effect from 1 April.

Chapter II

TRENDS IN WORLD AND EMPIRE TRADE

1. Trends in World Trade: Composition

An analysis of significant trends in world and Empire trade is made in this chapter to furnish the setting for a somewhat detailed examination of the trade of a primarily agricultural, raw material exporting country like India.

The following table summarizes the changes in the composition of world production and world trade since 1929, and 1932, according to the three broad groups of articles, foodstuffs, raw materials and manufactured goods.[1]

TABLE I

Indices of Quantum of Composition of World Production and Trade (1929=100)

	1929	1932	1936	1937
Foodstuffs				
Production	100	100	103	106
Trade	100	89	88	93
Raw Materials				
Production	100	75	106	119
Trade	100	82	96	112
Manufactured Goods				
Production	100	69	111	119
Trade	100	59	75	86
Total World Trade	100	75	86	97

Percentage Composition of Gold Value of World Trade

	1929	1932	1936	1937
Foodstuffs	24·5	29	24	23
Raw Materials	36	33	38	39
Manufactured Goods	39 5	38	38	38

It will be observed that the quantum of total world trade fell by a quarter during the first three years of the depression and recovered gradually by 1937 to about the level of 1929

One fact which emerges prominently from the above figures is the considerable lag in trade behind production, in the case of foodstuffs and manufactured goods. The lag—

[1] *World Production and Prices*, 1937–8, *Review of World Trade*, 1936, 1937

indicative of the trend to self-sufficiency—is more noticeable in the case of the latter than of the former. The trade in manufactured goods, indeed, increased appreciably after 1932, but much less than production The influence of economic nationalism was growing throughout the period of depression and recovery in the case of manufactured goods; in that of food production it would appear from the above indices to have worked out its main effects by 1932

Raw materials have naturally been affected least by the policy of national self-sufficiency pursued in many countries. In consequence, since 1932, there has been a striking increase in the share of raw materials of the total gold value of world trade from 33 to 39 per cent There has been an equally marked decline in the percentage of foodstuffs from 29 to 23, with no change in the proportion of manufactured goods, 38 per cent.[1]

Foodstuffs

The index of the world output of foodstuffs was the same in 1935 as in 1932, and the same in 1932 as in 1929 But this relatively stable aggregate conceals within itself a great shift in the geographical distribution of world food production: it has increased in the great industrial areas, the main importing countries, which have aimed more and more at self-sufficiency in respect of food, it has correspondingly contracted in the main agricultural countries, owing to a shrinkage in their export markets

A decline in the quantum of world trade in foodstuffs has been a direct result of these territorial shifts in production.

Raw Materials

There was a marked disparity between the relative movements of the indices of the production of agricultural and non-agricultural raw materials as the following figures will indicate[2]

[1] These changes are the resultant of price as well as quantum movements in each group the gold price level of manufactured goods fell most (the quantum of trade in them also increased most, after 1932), that of raw materials least (their quantum in world trade rose), both the gold price level and quantum of foodstuffs in world trade declined

[2] *World Production and Prices*, 1936-7 The index for 1936 is provisional as no equivalent final index is given in the next issue of the same publication

TABLE II

Indices of World Production of Raw Materials

(1929=100)	1932	1936	(1932=100)	1932	1936
All Raw Materials	71	105	All Raw Materials	100	148
(a) Agricultural	91	107	(a) Agricultural	100	118
(b) Non-agricultural	66	105	(b) Non-agricultural	100	159

The production of non-agricultural raw materials suffered much more during the depression, and also felt the stimulus of recovery far more, than of agricultural raw materials. Moreover, there has been distinct evidence of the trend towards self-sufficiency in Europe, in the production of raw materials (as of foodstuffs) of agricultural origin. Thus, while the world production of agricultural raw materials increased by only 6 per cent between 1932 and 1935, the production in Europe advanced by as much as 20 per cent.[1]

As the recovery in production has been most marked in the case of the non-agricultural raw materials, so the recent increase in the share of all raw materials of world trade is largely ascribable to them.[2]

Manufactured Goods

The last five years have witnessed a process of continual and widespread industrial revival, more marked in respect of certain countries than of others, and in general more characteristic of countries which depreciated their currencies earlier.[3] This phenomenon provides the major explanation of the recent increase of the relative importance of raw materials and particularly of non-agricultural raw materials in world trade.

[1] *World Production and Prices*, 1936-7, p 27.

[2] 'Among the raw materials of which larger quantities entered into international trade in 1935 than in 1932, wool, rubber, copper, tin, mineral oils and coal were the most important'—*World Production and Prices*, 1935-6, p 95 Recovery affected producers' investment goods and durable consumption goods more than direct consumption goods

[3] For indices, see *Statistical Year-book of the League of Nations*, 1937-8, p 176

2. Trends in World Trade . Distribution

The Place of Primary Exporting Countries in World Trade

The larger share of raw materials in world trade accounts for the general increase in the share of raw material exporting countries[1] of the total export trade of the world.

Now the raw material production of the world is mainly of non-agricultural origin, agricultural raw materials forming less than a quarter of the total output.[2] Non-agricultural raw materials also form the bulk of the exports of raw materials from the raw material exporting countries. Only in the exports from a few countries do agricultural raw materials outweigh the non-agricultural in importance.[3]

Moreover, the factors bearing upon the production of agricultural raw materials are different from those which act upon the production of non-agricultural raw materials and more akin to factors determining the production of foodstuffs. Also, the world indices of production of agricultural raw materials show comparative lack of fluctuations similar to the world indices of the production of foodstuffs The production of non-agricultural raw materials (products of forests, plantations and mines), on the other hand, is subject to conditions allied to those of manufacturing industry and has, therefore, alternately experienced drastic restriction and quick and substantial recovery

For a study of the spread of recovery in trade in recent years, therefore, countries which are exporters of primary produce may be divided into those exporting agricultural products, whether foodstuffs or raw materials, and those exporting non-agricultural raw materials[4]

It will be seen from the table given as Appendix B that the share of world trade of countries mainly exporting primary

[1] Countries in whose exports raw materials form a larger part than either foodstuffs or manufactured articles alone India is thus a raw material exporting country, 50 per cent of her exports by value were made up of raw materials and articles mainly unmanufactured in 1935-6 Of the rest, 27 per cent consisted of manufactured articles and 23 per cent of food, drink and tobacco

[2] See *World Production and Prices*, 1935-6, p 12 and tables at the end

[3] See League of Nations *International Trade Statistics*, Tables of Trade by Commodities for each Country

[4] It is interesting to note in this connexion that the recent issue of *World Production and Prices* for 1937-8 adopts the same basis as is suggested here for an analysis of the world's primary production

products increased between 1932 and 1935 from 26·7 to 29·7 per cent. Of this the share of countries which primarily export non-agricultural raw materials increased from 7·7 to 9·2 per cent, while the share of countries whose most important exports consist of agricultural products rose from 19 to 20·4 per cent: the former increase was relatively much greater than the latter.[1] This is in keeping with the nature of recovery characteristic of the past few years.[2]

India belongs to the class of agricultural exporters. There was a moderate improvement in her relative share of world export trade from 2·76 per cent in 1932 to 3·19 per cent in 1936, and a slight recession to 3·07 per cent (including Burma) in 1937. In 1929, this share was 3·56 per cent. There would thus appear to have taken place an apparently permanent decline in the position of India's export trade since the onset of the depression.

3. Trends in Empire Trade: Distribution

World Trade, Empire Trade, Inter-Imperial Trade

The changing composition of world trade and its bearing on the export trade of agricultural and other raw material producing countries has been considered. An attempt will now be made to examine briefly the relation of Empire to world trade, as well as the changing distribution of Empire trade, and to analyse the probable causes of observed trade movements, including the part played by the Ottawa Agreements in bringing them about.

The following table shows the relation of Empire to world trade and the relative importance of inter-Imperial trade in the total trade of the British Empire.[3]

[1] In 1936, the rates of progress of the relative shares of agricultural and non-agricultural exporting countries were about equal.

[2] The following statement of Mr D Ghosh, therefore, ignores the essential nature of the recovery that has taken place 'Among a selection of raw material exporting countries which are geographically scattered over the whole world, which export all different varieties of raw materials and have widely different market connexions, India in spite of the agreement progressed less than most others, though she shared with them the general benefits of increased international demand for raw materials'—*Revision of Ottawa*, 1936, pp 9-10 The increased international demand for raw materials was more characteristic of non-agricultural than of agricultural raw materials

[3] *Review of World Trade*, 1936, pp 15, 21, ibid, 1937, pp. 10, 20

TABLE III

World Trade, Empire Trade and Inter-Imperial Trade

	1929	1932	1936	1937
World trade gold value index	100	39 (100)	37 5 (96)	46 (118)
Empire trade gold value index	100	39 (100)	40 (104)	49 (126)
Empire trade percentage of world trade	27 9	27 5	30 8	29 8
Inter-Imperial trade percentage of total Empire trade	25 7*	29 1	30 6	—
Inter-Imperial trade . percentage of world trade	7 2	8	9 5	—
Empire-foreign trade percentage of world trade	20 7	19 5	21 5	—

* This percentage remained the same in 1931

During the period of operation of the Ottawa Agreements (or after 1932) it appears that the gold value of Empire trade increased more than of world trade As a result, the proportion of world trade represented by the British Empire increased from 27½ per cent in 1932[1] to 31 per cent in 1936.[2] The relative importance of inter-Imperial trade in the total trade of the British Empire was also increasing at the same time Trade among the countries of the British Empire thus formed an expanding share of an increasing proportion of world trade . it went up from 7·2 per cent of world trade in 1932 to 9·4 per cent in 1935 and 9·5 per cent in 1936.

Relatively to world trade, the Empire trade with foreign countries was also increasing : it went up from 19·5 per cent of world trade in 1932 to 20·4 per cent in 1935 and 21·5 per cent in 1936 This increase was, however, smaller than the relative increase of Empire trade as a whole and still smaller than the relative increase of inter-Imperial trade.

Direction of Empire Trade : Post-War Period

After the War, England had come to depend more on the Empire alike for the supply of her imports of foodstuffs and raw materials and for the disposal of her exports, mostly of manufactured goods, than before

[1] 26 7 per cent in 1931

[2] In 1937 it receded to 30 per cent again

In direct contrast, all the five major British countries derived a smaller proportion of imports from, and sent a smaller proportion of exports to, the United Kingdom during the post-War period than in the pre-War year. While the share of the Empire in England's trade was on the increase, England's share in Imperial trade was diminishing.[1]

1929-31: Stability of United Kingdom Demand

The onset of the Great Depression had far-reaching effects on (the volume as well as) the direction of Empire trade. The catastrophic fall in the prices of agricultural commodities and the severity of the depression in the important Empire countries led to a decline in the Empire's proportion of United Kingdom imports from 29·4 per cent in 1929 to 28·7 per cent in 1931.[2] The tendency to increasing dependence of the United Kingdom for her imports on the Empire countries, noticeable before the depression, was thus slightly reversed Similarly the proportion of exports of United Kingdom produce going to the Empire declined slightly from 44·5 per cent in 1929 to 43·8 per cent in 1931.

On the other hand, again, the tendency to diminishing

TABLE IV

Percentage Exports to the United Kingdom from the Overseas Empire[3]

	Annual average 1924-9/1924-5 to 1929-30	1929	1931
Canada	33 4	24·6	28 3
Union of South Africa	50 5	50	38·4
India	22 7	21·2	26 8
Australia	40 5	36·8	50·9
New Zealand	77 7	73 7	88
Eire	96 1	92 3	96 3
The Dominions and India		35 6	42 9

1 'This meant that the Mother Country's dealings were less widely distributed geographically, whereas the trade of the Overseas Empire was more so Colonial trade had expanded while that of the Mother Country had contracted The Empire looked less towards England, but England looked more towards the Empire'—André Siegfried, *England's Crisis*, 1931, p 68

2 This was entirely accounted for by the decline of India's proportion from 5 1 to 4 3 per cent

3 *Economist*, November 1934, *International Trade Statistics*, 1934, Summary Table (*b*), *Statistical Abstract for the British Empire*, 1925–34 (Trade and Commerce Section)

dependence of the Empire on the United Kingdom market, strikingly manifest in the years of post-War revival, was decidedly reversed by the depression.

The remarkable relative increase of exports to the United Kingdom from the main Empire countries (except South Africa) shown by the above figures from 1929 to 1931 was not due to any tariff preference in that country. It was explained by the greater relative stability of United Kingdom demand during the depression. At a time when foreign markets were rapidly shrinking and everywhere fresh barriers were raised to imports of agricultural produce, the United Kingdom remained the only large free market.

The marked stability of her demand during the early period of the depression (1929 to 1931) was indeed evidenced by the trade statistics of almost every country in the world.[1] The Empire countries were thus not in a class by themselves: their relatively greater dependence on the United Kingdom was no peculiar phenomenon, but part of a general tendency.[2] The United Kingdom demand was a pillar of strength all round, and different countries derived support from it in proportion to their dependence on that market.

1931-6

The tables overleaf give the distribution of the trade of the United Kingdom and of the Overseas Empire from 1931 to 1936.[3]

Certain facts are clearly brought out in these tables.

(1) There has been a marked growth in the share of the

[1] The United Kingdom share of the total value of the world's import trade rose from 15 19 per cent in 1929 to 17 24 in 1931 Between these years, the relative share of the United Kingdom shows more or less appreciable increase in the export trade of twenty-three European countries, all the countries in Asia and Oceania for which statistics are available, with slight exceptions, and 18 out of 21 countries on the American continent See *International Trade Statistics*, 1934, Summary Table (*b*)

[2] Sir George Schuster in the special supplement of *Economist* on 'Empire Trade before and after Ottawa', November 1934, drew attention to the stability of the United Kingdom market for Empire products Prior to 1931, however, the stability of the United Kingdom market was equally remarkable for the products of other countries In fact, the share of foreign countries in the United Kingdom import trade improved from 69 4 per cent in 1929 to 71 2 per cent in 1931.

[3] *Economist*, 1 May 1937, *Annual Statement of the Trade of the United Kingdom*, 1936, Vol IV, *International Trade Statistics*, 1934–7, Summary Tables (*a*), (*b*).

TABLE V

Percentage Distribution of United Kingdom Trade, 1931-7

	Domestic Exports				Imports			
	1931	1932	1936	1937	1931	1932	1936	1937
Canada	5·3	4·5	5·3	5·3	3 8	6 1	8 8	8 6
Australia	3·7	5·5	7·3	7 2	5 3	6 5	7 2	7
New Zealand	2 9	2 9	3 9	3 9	4 4	5·3	5 1	4·8
Union of South Africa	5·6	5	8·5	8	1·5	2 2	1 6	1 8
India	8 3	9·3	7 7	7 5	4·3	4 6	6 1	6 3
Eire	7·8	7·1	4·8	4 1	4 2	3 8	2 4	2 1
Total Empire	*43 8*	*45·4*	*49 2*	*48 3*	*28 7*	*35 3*	*39 2*	*39 4*
Empire excluding Eire	36	38 3	44 4	44 2	24 5	31 5	36 8	37·3
Foreign Countries in the Sterling Area[1]	16	16	17·1*	‡	19 6	21 7	20 1†	. ‡
Total Sterling Area[2]	59 8	61 4	66·3	‡	48·4	57	59 2	. ‡
Gold Bloc Countries[3]	16	14 7	11 1	‡	16 8	11 4	10·4	. ‡
Other Foreign Countries	24·3	23 9	22·6	.‡	34 8	31 5	30 4	. ‡

* In 1933, 1934 and 1935 the corresponding figures were 17 8, 17 9 and 17 7 respectively

† 22 per cent in 1935.

‡ With the fall of the former gold bloc, the distinction between currency groups ceased to have the same significance for purposes of trade

TABLE VI

Percentage Distribution of the Trade of the Overseas Empire, 1931-7

	Imports from United Kingdom				Exports to United Kingdom			
	1931	1932	1936	1937	1931	1932	1936	1937
Canada	17 4	20 7	19 4	18 2	28 4	32 6	39 4	36 4
Australia*	39 6	40	40 7	41 6	44 9	50 3	50 5	48 8
New Zealand*	49 1	51 2†	49 9†	50 2†	89 7	87 8†	80 2†	76 †
Union of South Africa	44 6	46 1	46 3	42 6	78 5	82 3	83 8	78 5
India	36 7	37 6	39 0	31 5‡	27 4	27 8	31 9	31 7‡
Eire	80 8	76 6	53 3	50	96 3	96 2	91 5	90 8

* Years ending 30 June. Countries of origin

† Excluding specie

‡ Excluding Burma from 1 April

[1] The Argentine, Bolivia, Brazil, Columbia, Denmark, Egypt, Estonia, Finland, Japan, Norway, Paraguay, Portugal, Siam and Sweden (*Report of the Bank for International Settlements*, 1935)

[2] Besides foreign countries enumerated in footnote 1 the sterling area included, according to the same *Report*, the countries of the British Empire, other than Canada Canada has, however, been included in the above table with the sterling area

[3] France, Holland, Italy, Belgium, Poland, and Switzerland

Empire of the United Kingdom export and import trades, the increase being particularly remarkable in the latter case. This increase has occurred despite a considerable decline in the United Kingdom's trade with Eire British imports from the Empire (including Eire) increased from 29 per cent in 1931 to 39 per cent in 1936, and, excluding Eire, from 24 to 37 per cent Exports to the Empire increased from 44 to 49 per cent, and, excluding Eire, from 36 to 44 per cent over the five years.

Thus the tendency to increasing dependence of the United Kingdom on the Empire, both for the supply of imports and the sale of exports, already observed in the post-War years, reasserted itself after the temporary reversal in the few years immediately preceding and following the beginning of the depression [1]

(2) In the post-War period, the increasing reliance of the United Kingdom on the Empire had no counterpart on the side of the Empire countries, because of their rapidly expanding trade with foreign countries In the period of depression and subsequent recovery from 1931 to 1936, however, there was a parallel trend in the trade of most of the Empire countries towards increased reliance upon the United Kingdom in respect of their imports and exports alike

(3) In the case of the Empire countries, the increase of their proportion of exports to the United Kingdom was greater than the increase of their percentage imports from the same country Conversely, in the case of the United Kingdom, the increase of her relative imports from the Empire countries was greater than the increase in the proportion of her exports sent to them

(4) The proportion of both the import and export trades of the United Kingdom with the foreign countries in the sterling area also showed an increase between 1931 and 1935. (Trade agreements had also been concluded with many foreign countries in the sterling area)

(5) There was an appreciable relative decline in the trade of the United Kingdom with the five central European countries of the former gold bloc, and with other foreign countries, most important of which was the United States.

[1] This temporary reversal occurred from 1927 to 1930 in the case of exports, and from 1925 to 1931 in the case of imports

The decline was more marked in the case of imports from, than of exports to, these countries, even as the improvement was more noticeable in the case of imports from, than of exports to, the sterling group of countries.

4. Causes of Relative Increase of Inter-Imperial Trade and of Total Empire Trade

(a) *United Kingdom Import Trade*

British Protectionism

On the side of imports into the United Kingdom, probably the most important factor responsible for the pronounced change in the distribution of trade has been the adoption of protection by Britain. The imposition of high tariffs on the importation of practically all manufactured goods in the pursuit of a policy of protection would quite naturally diminish the share of import trade of the manufacturing countries of Europe and North America, and automatically increase the proportions of the agricultural countries supplying raw materials and foodstuffs. Of these the countries of the British Empire are most important.

Industrial Revival in the United Kingdom: Recovery of Raw Material Imports

The industrial revival in the United Kingdom and the increase in the domestic production of manufactured goods, moreover, led to an increased demand for industrial raw materials, of which the Empire countries derived full benefit. The following table shows the changes in the composition of United Kingdom import trade classified according to three broad groups, during 1931-6.[1]

The figures relating to indices show that the United Kingdom imports of manufactured goods fell much more than of raw materials during the first one or two years of deepening depression, and have increased much less than the latter during the subsequent years of recovery. As a result, the proportion of imports of manufactures, which was 30 per cent in 1931, had been reduced to only 24 per cent in 1935, and

[1] Percentages and indices are calculated from *United Kingdom Trade Returns*

TABLE VII

Composition of United Kingdom Import Trade

	1931	1932	1933	1934	1935	1936	1937
Foodstuffs, per cent	48	53	50	47	47	45	42
Raw Materials, per cent	20	23	27	29	28	29	31
Manufactures, per cent	30	22	22	23	24	25	27
Indices							
Foodstuffs	100	90	82	83	85	92	104
Raw Materials	100	95	104	121	122	143	182
Manufactures	100	60	58	66	71	81	105

was 27 per cent in 1937. On the other hand, the proportion of raw materials went up from 20 to 31 per cent.

Considered together with the composition of imports from the Empire and foreign countries respectively, the increased imports of raw materials afford an important part of the explanation for the increase in the relative share of the Empire, or the decline in the relative share of foreign countries, in the import trade of the United Kingdom

TABLE VIII

Commodity Composition of United Kingdom Imports from British and Foreign Countries (Average 1928–31)

	A Percentage of total class imports from		B Percentage in each class of imports from	
	British Countries	Foreign Countries	British Countries	Foreign Countries
Foodstuffs	37	63	58	40
Raw Materials	36	64	31	23
Manufactures	10	90	10	36
Total	29 5	70·5	100	100

It appears (Table VIII above) that a strikingly greater proportion of imports from foreign countries (36 per cent) than from Empire countries (10 per cent) consisted in 1928-31 of manufactured goods, and a correspondingly smaller proportion of imports from foreign countries (64 per cent) than from the Empire (90 per cent) was made up of raw materials and foodstuffs together.

Or, again, of the imports of manufactured goods against which the policy of protection was specially directed, 90 per cent were derived from foreign countries and only 10 per cent from the Empire.

Rise in Raw Material Prices

The increased value of raw material imports was a composite of larger volume and higher prices. The recovery of agricultural prices after 1932, too, played its part in restoring the proportion of the value of United Kingdom imports consigned from the Empire countries : the disparity between the prices of foodstuffs and raw material and the prices of manufactures, which was caused before 1932 by the diverging movements of the three sets of prices, has been largely remedied by converging trends since.[1]

Comparative Freedom of Trade

Another factor responsible for the relative enlargement of inter-Imperial trade was its comparative freedom from the severe forms of trade restriction The unequal pursuit of self-sufficiency—the trend to autarchy was stronger in many European and South American countries than in the British Empire—was an important factor influencing the course of trade.

Currency Depreciation and Exchange Stability

Moreover, the membership of the sterling area conferred a twofold benefit. Currency depreciation relieved the countries concerned of the severe strain to which their economic structure had been subjected by the powerful downward pull of a declining international price level[2] But 'apart

[1] The indices of the gold price level of foodstuffs, raw materials and manufactured articles with 1929 as base were 52, 44 and 64 respectively in 1932 the prices of primary products had fallen much more than of finished goods In 1937, the same indices were much closer together, being 45 5, 46 and 51·5 respectively

[2] In this connexion, there is no doubt that the adherence to gold of the former gold bloc countries in the face of all round currency depreciation penalized their export trade except among themselves Although they were specially affected by the British Tariff on manufactured goods, it would appear that the appreciation of their currencies in terms of sterling was one principal reason for their smaller share in the British import trade, and consequently to some extent for the relatively higher share of the Empire countries.

from the closer adjustment of domestic costs to world prices achieved by members of this group through currency depreciation, the expansion of the trade of the sterling group may, to an important extent, be ascribed to the fact that this group represents a wide area of mutually fixed exchange rates, and that trade between members of the group has consequently been relatively little hampered by the risk of exchange fluctuations'.[1]

Trade Agreements

Trade agreements had also been concluded by the United Kingdom with many countries in the sterling area and tended to increase her trade with these countries.

The Ottawa Agreements

The Ottawa agreements could not by their nature lead to any material increase in the United Kingdom's imports from Empire countries, except by a diversion of trade from foreign to Imperial channels They did not make for any definite net reduction of tariff and other trade barriers but involved the imposition of fresh barriers against foreign imports A not unimportant part of the *relative* increase in imports from the Empire may, however, certainly be ascribed to the tariff adjustments and quota arrangements effected by the Ottawa agreements

(*b*) *Export Trade of the Overseas Empire*

The increasing reliance of the United Kingdom on Empire sources of supply had its counterpart in the increasing dependence of the Empire countries for their exports on the United Kingdom market This latter tendency is also accounted for largely by the same factors—the marked revival of industrial activity in the United Kingdom following the adoption of protection, increased demand for raw materials, which the countries of the Empire are peculiarly adapted to supply; the improvement in the relative prices of raw materials; the fact of exchange stability between the United Kingdom and other countries of the Empire, as also the alleviation

[1] *Review of World Trade*, 1935, p 60

afforded by currency depreciation; and the favourable fiscal basis of mutual trade provided by the Ottawa Agreements.[1]

Trade Diverting and Trade Enlarging Factors

The above analysis of the factors underlying the tendencies of Empire trade before and during the depression and before and since Ottawa has not made possible any precise estimate of their relative importance. All the factors in combination have tended to bring about the appreciable relative enlargement of inter-Imperial trade which constitutes the most noticeable feature of the changing distribution of Empire trade during recent years. They also account, in great part, for the increase noted above in the share of the British Empire of the total trade of the world. A broad distinction may be made between primarily trade-diverting and trade-enlarging factors.[2] British protection and Empire preferences tended largely to divert trade from Empire-foreign to inter-Imperial channels: the favourable basis for mutual trading provided by adherence to a common currency standard and exchange depreciation may be regarded both as trade-enlarging and trade-diverting: recovery in production, agricultural and industrial, and in prices of primary products was primarily trade-enlarging rather than trade-diverting in its effects. It may be that the increase of trade resulting from the action of trade-enlarging factors flows more and more into inter-Imperial channels because of the simultaneous operation of trade-diverting influences. This, indeed, appears to have

[1] On the side of exports from the United Kingdom, again, an appreciable improvement has been noticed in the proportion consigned to the Overseas Empire, and a corresponding increase in the proportion of imports of the important Empire countries derived from the United Kingdom This again is sufficiently explained by the causes discussed above, with some redistribution of emphasis Inter-Imperial exchange stability is a factor of as much importance as it was on the import side of the United Kingdom trade The fiscal policy of the United Kingdom and domestic industrial revival in that country, of course, come only indirectly into the picture But the recovery in the prices of raw products enhanced the purchasing power of the overseas agricultural countries and attracted an increasing proportion of United Kingdom exports of capital and consumption goods As regards the part played by the Ottawa Agreements, it is important to remember that they widened the scope and increased the margin of preference in favour of the United Kingdom, but made no radical innovation in Dominion tariffs.

[2] According as they tend more to change the direction of trade than to increase its aggregate volume or *vice versa*

largely taken place: inter-Imperial trade has increased relatively to Empire-foreign trade, but Empire-foreign trade has also increased relatively to world trade. In other words, the Empire's percentage of world trade has increased: both inter-Imperial and Empire-foreign trade have shared in this increase: but inter-Imperial trade has had more than its proportionate share, Empire-foreign trade has had less than its proportionate share. The former was helped by both classes of factors; the latter was helped by one and hindered by the other class of factors, though the help outweighed the hindrance.

It is significant in this connexion that the biggest increase of inter-Imperial trade, from 25·7 to 29·1 per cent of Empire trade, took place in 1932, the very first year of the operation of the protective *cum* preference policy of the United Kingdom. After 1932 the increase of inter-Imperial trade became much slower and was much smaller than the increase of the Empire's proportion of world trade: other factors like the larger production and higher prices of raw materials and revival of industrial demand in the United Kingdom became more prominent.

Chapter III

TRENDS IN INDIA'S EXPORT TRADE AND EUROPEAN COMMERCIAL POLICY

1. Trends in India's Export Trade : General

A brief study is made in this chapter of variations in the volume, value and direction of India's export trade with an attempt at some explanation of the main trends.

Quantum and Price Level of Indian Exports

The following table shows the changes in the value, the quantum and average price level of exports of Indian merchandise during the last decade.[1]

Table IX

Value, Quantum and Price of Indian Exports

	1927-8	Annual average of 1927-30	1932-3	1933-4	1934-5	1935-6	1936-7
Value (Rs Crores)		320	132	147	152	161	196
Index, Value		100	41 3	45 9	47 5	50 3	61 3
			100	111	115	121	148
Index, Quantum	100	104 4	74 9	86 2	87 8	88 4	107 4
			100	115	117	118	143
Index, Price	100	96 2	55 3	53 5	54 1	56 9	57 2

By 1932, when the export trade touched bottom, there had been a fall of 25 per cent in the quantum of Indian exports, and of 45 per cent in their average price level, together making a fall of 58 per cent in total value. In the four years following 1932, the value of exports increased by nearly 50 per cent, almost entirely due to an improvement in quantum.

[1] *Review of World Trade*, 1937, Annex II, pp 84-5 for indices of quantum and the price level The indices are the same as given in the annual *Review of the Trade of India*

Export Trade of India and of the Overseas Empire

A comparison is made in the following table between changes in the export trade of India and the total export trade of the British Empire less the United Kingdom, or the whole of the Overseas Empire,[1] which is generally in a stage of economic development similar to that of India.

TABLE X

Export Trade of India and the British Empire excluding the United Kingdom

(£ millions)

	Average, 1927–9	1932	1933	1934	1935	1936
(1) India*	240·8	98·5	110·8	113·9	120·6	137·2
Index	100	41	46	47	50	57
Index		100	111	114	121	139
(2) British Empire less United Kingdom	981	463	487	537	576	653
Index	100	48	50	55	59	67
Index		100	104	115	123	141
(1) as percentage of (2)	24·5	21·3	22·7	21·2	20·9	21·1

* Financial year ending 31 March of the following year.

A reference to the indices with 1932 as base brings out the close similarity in the rate of development of the export trade of India and of the whole Overseas Empire since that year. The percentage share of India of the trade of the latter has been more or less stable at a little over one-fifth. The earlier decline in that share from the average of 24·5 per cent during the pre-depression triennium to 21·3 per cent in 1932 has not, however, been made good.[2]

2. TRENDS IN INDIA'S EXPORT TRADE: DISTRIBUTION

Direction of India's Export Trade

The following figures of the percentage distribution of Indian exports (including re-exports) among her important

[1] i.e. the aggregate of the (domestic) exports of the Dominions and India, Colonies and Protectorates, and Mandated Territories under Condominium. See *Statistical Abstract for the British Empire*, 1925–36 (Trade and Commerce Section).

[2] The explanation of this earlier recession in India's share of the Overseas Empire trade is largely found in the exceptional severity of the slump in the prices of her staple agricultural exports, as indicated by a comparison of the indices of the estimated average export price levels of agricultural countries. See *Review of World Trade*, 1937, Annex I.

markets show the trends in the direction of export trade since the beginning of the depression.[1]

TABLE XI

Percentage Distribution of India's Export Trade.

	1929-30	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	21 8	27·9	28	32 2	31·6	31·5	32·1
Germany	8·4	6·3	6·5	6·5	4·5	5·9	4·7
France	5·3	4·8	6	4·9	3 2	4·4	4
Belgium	3 8	2·8	3	3	2 6	3·4	3·6
Italy	3 6	3·4	3·5	3·8	3 8	2 2	2 4
Netherlands	2·8	3	3	2·7	1 9	2·3	2 2
U S A.	11 6	8 9	7 4	9 6	8 3	10 1	9·5
Japan	10·2	8 7	10 3	8·5	16·1	13 4	15·7

The increase in the proportion of exports going to the United Kingdom from 21·8 per cent, or somewhat over one-fifth, in 1929-30 to 32·2 per cent, or a little under one-third, in 1933-4 is remarkable. But the greater part of this increase in the share of the United Kingdom (from 22 to 28 per cent) had taken place in the two years from 1929-30 to 1931-2, that is *before* the grant of preference in March 1932, by the Import Duties Act.

It is thus clear that the tendency of India's export trade to rely more and more on the United Kingdom market did not *originate* with the coming into operation of the Ottawa preferences. The trend of exports after Ottawa does not appear to have been characterized by any striking new development. There was only the continuation of a tendency which started[2] in a pronounced form with the beginning of the depression and was at the time part of a more general phenomenon.[3]

There is noticeable at the same time, in direct contrast, a distinct tendency towards decline in the share of principal European countries of India's export trade The proportion of exports taken by five European countries included in the

[1] *Review of the Trade of India*, 1932-3—1936-7.

[2] Prior to 1928 there was a slight irregular tendency to decline in the relative share of the United Kingdom of Indian exports That share was 23 4, 29 2, 22, 25 and 21 4 per cent respectively in 1913-14, 1918-19, 1922-3, 1927-8 and 1928-9

[3] See above Chapter II, 3

above table fell from 24 per cent in 1929-30 to 16 per cent in 1934-5 It has shown no definite improvement since. It is, however, significant that the greater part of this decline occurred *after* 1932-3 (when the share of the five countries stood at 22 per cent), whereas the greater part of the relative increase in exports to the United Kingdom had taken place *before* 1932-3

Besides the United Kingdom, the share of Japan of India's export trade underwent a striking increase. After some alternate improvement and recession there has been a sustained and distinct rise in the proportion of Indian exports taken by that country, from less than 9 per cent in 1931-2 to nearly 16 per cent in 1936-7.

Correlation between Variation of Industrial Activity, Value of Imports and Indian Exports to Principal Trading Countries

The causes which might account for the increased dependence of India on the United Kingdom market have been discussed in the last chapter in connexion with the Empire as a whole A sort of a broad and general relation is observed between the variation of industrial activity in (of the value of total imports into), and of the value of Indian exports to, important trading countries [1] While no precise conclusions can be derived from such roughly parallel variations, they would appear to afford an important part of the explanation for the appreciable change in the volume and direction of India's trade during recent years For, while the *general* incidence of the depression, as reflected in a decline of industrial activity and fall in the import trade of her important customers, accounts for the great fall in the volume and still more in the value of her export trade, the *varying* incidence of the depression in the case of different countries also accounts to a not unimportant extent for the change in the distribution

[1] A reference to indices with 1928 as base will show that except for Japan the order (though not the magnitude) of decline during the depression alike in industrial activity and in the value of Indian exports is the same for seven countries U S A , Germany, Belgium, Italy, (Japan), France, United Kingdom, (Japan) There is also a correspondence between the order according to decline of industrial activity and according to the fall in the value of their imports (in national currencies) in the case of these seven countries the United States shows the greatest fall, Japan the least alike in industrial activity and in the value of imports in 1932 as compared with 1928

of that trade between 1929 and 1932 (or 1933)—in particular for the appreciable deflexion of its flow away from Europe and towards the United Kingdom, and latterly towards Japan.

India's share of United Kingdom Import Trade

The following table shows the relative position of India and the Empire as a whole in the import trade of the United Kingdom.

TABLE XII

Percentage of United Kingdom Imports from India and Other Empire Countries

	1929	1931	1932	1933	1934	1935	1936	1937
India ..	5 1	4 3	4·2	5·5	5 8	5 4	6 1	6 3
Empire excluding Eire	25 8	24 5	31 6	34 3	34 8	35 3	36·8	37 3
Empire excluding Eire and India	20 7	20 2	27 4	28 4	29	29·9	30·7	31

Two broad conclusions are suggested by the figures in the above table. From 1929 to 1931, India lost much relative ground in the United Kingdom market, the rest of the Empire (excluding Eire) nearly maintained its position. From 1931 to 1932, the Empire's position (excluding Eire and India) advanced considerably from 20 to 27 per cent, that of India, curiously enough, remained almost unchanged. Since 1932, India has made up much leeway. Nevertheless in 1936, her share was only one-sixth of the total Empire's share of the United Kingdom's import trade (excluding Eire) against one-fifth in 1929.

Absolute and Relative Changes in Demand for Indian Exports by Commodity Class in Principal Countries

A closer examination of the character and composition of the import trade of India's principal customers and of Indian exports to each of them would show how far the decline in the importance of European markets for India is due to an absolute reduction of their demand for foodstuffs and raw materials, or increasing self-sufficiency, and how far to a shift in their sources of supply. Similarly, such examination would reveal the extent to which the increased exports of India to

the United Kingdom result from an absolute or relative increase in the demand of the latter for the type of goods which India exports to her.

The following table gives the indices of quantum of imports of (1) foodstuffs and (2) materials, raw and partly manufactured, into seven important trading countries.[1]

TABLE XIII

Indices of Imports of Foodstuffs and Raw Materials into Certain Countries

Country	Foodstuffs					Raw Materials				
	1932	1933	1934	1935	1936	1932	1933	1934	1935	1936
United Kingdom	100	98	99	98	101	100	109	117	119	134
Germany	100	82	85	76	77	100	107	111	107	101
France	100	90	75	73	79	100	116	96	95	104
Italy	100	72	63	63	*	100	114	123	116	*
Netherlands	100	97	73	65	67	100	87	86	75	75
Belgium	100	96	94	88	102	100	98	104	100	106
U S A	100	107	122	145	*	100	116	107	141	*

* Not available

From 1932 to 1935, there was more or less reduction in the foodstuff imports of all the above countries excepting the United States (where they went up by 45 per cent). The reduction ranged between 37 per cent (in the case of Italy) to 2 per cent (in the imports of the United Kingdom). In 1936, there was a relatively large increase of food imports in the case of Belgium and a small increase in every other case[2]

Raw material imports over the five years showed an appreciable increase in the case of the United Kingdom and the United States, a small and hesitant increase in the case of France and Belgium, an alternate rise and fall in the case of Germany and Italy, and a continuous decline in the case of the Netherlands

These variations yield their full meaning when they are considered together with the corresponding variations of exports from India

[1] *Review of World Trade*, 1934–6, Table V The base has been shifted from 1929 to 1932 For Belgium and Netherlands the indices are calculated from the figures of weights of imports (*International Trade Statistics*, 1934–6, Table V)

[2] No index is available for Italy, but it is likely that an increase occurred in that case too.

TABLE XIV

Indices of Distribution of Exports of Foodstuffs and Raw Materials from India[1]

Foodstuffs

	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	100	116	120	117	123
Germany	100	89	56	36	26
France ..	100	98	54	75	96
Italy .	100	73	87	50	47
Belgium	100	94	50	31	30
Netherlands	100	70	64	74	54
U S A .	100	125	141	187	186
Japan .	100	10	17	33	85
Total	100	97	97	99	108

Raw Materials

	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	100	165	170	177	254
Germany	100	125	93	137	138
France .	100	89	64	86	88
Italy	100	126	124	73	111
Belgium	100	112	116	152	216
Netherlands	100	108	86	94	126
U S A ..	100	185	165	208	241
Japan .	100	102	192	161	229
Total .	100	128	136	145	187

The above indices are derived from the figures of value, which are composed of the quantum and price level of exports. But the average export price level of foodstuffs and raw materials was, in general, rising during the period The above figures would, therefore, somewhat overstate the real increase or understate the real decrease in the quantum of exports. A comparison of the above figures with the indices of the quantum of imports into principal countries would therefore, in general, present the Indian export trade in a rather favourable light. It may, nevertheless, yield some approximate conclusions

India's exports of foodstuffs to all countries (included in the above table) other than the United Kingdom and the United States declined more or less heavily In the case of

[1] The indices are calculated from (90 to 95 per cent of) the quantities of exports of foodstuffs and raw materials to each country as shown in *Review of the Trade of India*, 1932-3—1936-7, Table 12

Germany and Belgium, the decline of Indian exports was much heavier than in their total imports : self-sufficiency and substitution of rival supplies alike worked to the detriment of Indian export trade In the case of France, Italy and the Netherlands, on the whole, no distinct trend towards replacement of Indian by other foreign imports is apparent.

Exports of Indian raw materials to the United States, the United Kingdom, Germany and Belgium were much higher in 1935-6 than in 1932-3 In the case of each of these countries, moreover, the increase of the value of Indian exports was greater than the increase of the quantity of their total imports (total imports into Belgium showed no increase). The autarchic plans of Germany will affect Indian exports of industrial raw materials in the future But, so far, their incidence on such exports as jute and cotton and hides and skins has been less serious than on exports of articles of food, like rice, barley, coffee and tea and semi-manufactures like paraffin wax Indian exports to the Netherlands, again, increased while the latter's total imports declined, but to France declined while the latter's total imports increased somewhat There has apparently been some displacement of Indian raw material exports in the French market by rival supplies from other countries

On the whole, it would appear that the fall in Indian exports of foodstuffs to continental countries is due largely to a tendency to self-sufficiency in respect of food in industrial Europe :[1] in Germany and Belgium there has been, over and above, an actual displacement of Indian imports by imports from other sources On the whole, again, there does not seem to be much evidence of any persistent tendency after 1932 to displacement of Indian raw material exports by supplies from other sources, except in the case of France and perhaps to some extent in that of Germany as well

In the United Kingdom market India has made a relative as well as absolute gain in respect of both foodstuffs and raw materials

This review of the state of India's export trade may be

[1] The 'considerable expansion of food production in Europe has been caused partly by Government protective policies, partly by exchange restrictions designed to maintain domestic prices, and partly by lack of foreign exchange with which to purchase imports' —*Review of the Trade of India*, 1935-6, p 53

concluded with a survey of the general position of Indian exports in their principal markets.

The Place of Indian Exports in Principal Markets

The following table shows the relative importance of India as a source of supply for certain countries in Europe, the United States and Japan :[1]

TABLE XV

Percentage Share of India of Imports into Certain Countries

Country	1929	1931	1932	1933	1934	1935	1936	1937
United Kingdom .	5 1	4 3	4 6	5·5	5 8	5 4	6 1	6 3
Germany .. .	4 6	4 2	3 4	3 7	3	2 9	3 4	3 1
France* ..	4 7	2 8	2 3	2 8	2 3	2 9	3 1	2 7
Belgium ..	2 5	1 8	1 8	2 4	2 5	2 9	2 8	3 5
Italy† . .	5 4	4 1	3 7	4	4 6	3·1	2·3	3 6
Netherlands	1 9	1 6	1 3	1 4	1 6	1 3	1 6	2 2
Japan† . .	13	10 8	8 2	10·7	12 8	12 5	13 6	12
U S A .	3 4	2 8	2 5	3	3 3	3 1	2 9	3 4

* From 1934, inclusive, country of origin , previously, country of consignment From 18 February 1935, excluding the Saar.
† India, including Ceylon

It appears from the above table that from 1929 to 1932 India lost much ground to her rivals in all her important markets, that since 1932 she has regained much or all of her lost ground in Japan, the United States, Belgium and the United Kingdom, but has suffered what appears to be rather a permanent recession in Germany, France and Italy.[2]

It may be useful to recapitulate at this point the broad conclusions of a few comparisons instituted above in respect of the general position of India's export trade It was noted at the end of Chapter II, 2 that the relative share of India of world export trade has made appreciable improvement since 1932 (from 2·76 per cent to 3 19 per cent in 1936 and 3·07 per cent in 1937), but that the earlier decline in that share since 1929 (3·56 per cent) has not been wholly made good. A comparison of the export trade of India with that of the British Overseas Empire, which is generally in a similar stage

1 *International Trade Statistics*, 1934–6, Summary Table (*a*)
2 Though the position was obscured by the imposition of 'sanctions' against that country in connexion with the Italo-Abyssinian War, from 18 November 1935 to 15 July 1936.

of economic development, showed a parallel advance in both from 1932 onwards · the relative share of India of the trade of the whole Overseas Empire has accordingly remained more or less constant (at a little over one-fifth) since that year. But here, again, the pre-depression proportion (nearly a quarter) has not been attained since The relative importance of India as a source of supply for the United Kingdom market is greater now than ever before . she supplied 6 1 per cent of the imports in 1936 against 4·2 per cent in 1932 and 5·1 per cent in 1929 But the improvement in India's position has not been quite as marked as in the case of other Empire countries compared with 1929, though it has been greater since 1932 · India's share of the Empire's proportion of United Kingdom imports was one-sixth in 1936 against one-fifth in 1929, but less than one-seventh in 1932. It appears, now, that the main explanation of the continued relative recession in India's export trade since 1932 is her failure to regain her former position in some of the principal European continental countries such as Germany, France and Italy

The decline of India's trade with Europe was due to self-sufficiency, or a regrouping of trade relations of European states, or both ; it largely occurred through the working of economic and commercial policies under State direction, though in turn sometimes shaped by forces beyond State control A reference to the main results of such policies in one or two principal countries on the Continent will roughly indicate to what extent the actual decline of India's exports to them was inevitable or avoidable, and how far, again, a judicious trade policy on this side may help to ameliorate the unsatisfactory state of trade A brief description is, therefore, given of the effects of certain aspects of recent trade policy in Germany and France, which, next to the United Kingdom, constitute India's chief markets in Europe, and where the injury to her export trade has been most serious.

3 Trends in Commercial Policy Germany

Declining Share of Europe of World's Import Trade

At the outset, it might be observed that the share of Europe of the world's import trade steadily declined after 1932,

falling from 58 per cent in that year to 56·2 per cent in 1935.[1] The trade of Europe has been specially handicapped by restrictive measures like quotas, exchange restrictions and clearing arrangements.[2]

Now, 'a great part of the decline in European imports of raw materials from overseas is accounted for by developments in Germany and the reactions of those developments in other countries'.[3]

It is not possible or necessary here to give a detailed account of such developments. The intensification of agricultural protection in Germany with the advent of the Nazi régime early in 1933; the crisis in Germany's balance of payments as a result of a serious fall in her exports, particularly of manufactured goods, and relative stability of her imports, with an actual increase in raw material imports; the exhaustion of free foreign exchange, default in external debt service, and accumulation of commercial claims; the consequent institution of clearing agreements and regulation of trade on a compensation basis; the stringent restriction of imports under the 'New Plan', and attempts to push German exports by direct subsidies and disguised depreciation of the mark in order to recreate the indispensable export surplus—have been the most significant among the series of developments that have brought about vast changes in the methods, the mechanism and the channels of German trade.

Direction of Germany's Trade: Bilateralism

India's trade with Germany has also been affected by the far-reaching changes in the direction of German trade. Outstanding among such changes has been the tendency of Germany's trade to flow more and more along bilateral channels. Germany had normally an export surplus in her trade with Europe as a whole, but an import surplus with overseas countries. Until 1935, the favourable balance with

[1] In 1936 and 1937, it was 56·4 and 56·2 per cent respectively.

[2] Indeed, the policy of quantitative restrictions like quotas made relatively small headway beyond Europe and it was estimated that of the total trade of all countries practising exchange control in merchandise transactions, more than two-thirds was accounted for in 1935 by European countries (*Review of World Trade*, 1935, p. 19). For the rest, mainly the South American countries were responsible.

[3] *World Economic Survey*, 1934-5, p. 166.

Europe as well as the unfavourable balance with overseas countries contracted. Imports from Europe increased, exports to Europe contracted Imports from overseas countries decreased, exports to them increased. The tendency to decline in the unfavourable balance with the Overseas Empire continued in 1936, but was reversed in 1937, when the strong demand of Germany for overseas raw materials reasserted itself and swelled the unfavourable balance. The corresponding trend to decline in the export surplus with Europe was also reversed in the last two years

TABLE XVI[1]

Distribution of German Trade

(RM millions)

Europe					
	1933	1934	1935	1936	1937
Imports	2·28	2 56	2 47	2 53	3·04
Exports	3 8	3 19	3 06	3 38	4 09
Balance of exports	1 52	, 63	59	85	1 05
(Percentage of Total)					
Imports	54	59	62	60	56
Exports	78	78	73	71	69

Overseas Countries					
	1933	1934	1935	1936	1937
Imports	1 91	1 88	1 68	1 69	2 41
Exports	1 07	98	1 21	1 39	1 81
Balance of imports	85	9	47	3	6
(Percentage of Total)					
Imports	46	41	38	40	44
Exports	22	22	27	29	31

[1] Department of Overseas Trade *Report on Economic Conditions in Germany*, to March 1936, p 164, *Review of World Trade*, 1937, pp 67-8, *International Trade Statistics*, 1934-6

Another significant development in the distribution of German trade—also a reflection of the trend to bilateralism—is the striking increase both in exports to, and imports from, countries of south-eastern Europe and Latin America, with which Germany has entered into clearing and compensation agreements.

TABLE XVII

German Trade with South-eastern Europe and Latin America

	RM millions			Percentage		
	1934	1936	1937	1934	1936	1937
Imports from						
Latin America . .	468	578	915*	10 9	13 7	16·8
South-eastern Europe (six countries)†	316	505	672	7·1	12 0	12 3
Exports to						
Latin America	267	511	663	6 5	10 8	11·2
South-eastern Europe (six countries)†	222	457	667	5 3	9·5	11 3

* Increased cereal imports from the Argentine accounted for the exceptionally large increase of imports in 1937
† Bulgaria, Greece, Hungary, Roumania, Turkey, Yugoslavia.

A few observations are suggested by the foregoing analysis. The inward balances with raw material supplying countries which have *not* concluded clearing agreements with Germany have been axed universally and indiscriminately. On the other hand, imports from countries which have entered into such agreements with Germany have increased But the increase of imports has been accompanied by an increase of German exports to them In either case, there has been a tendency to reciprocal balancing of imports and exports.[1]

Drive for Autarchy

For the rest, Germany's drive for economic autarchy must

[1] The Indian Trade Commissioner in his *Report* for 1936-7 arrives, after an instructive analysis, at the conclusion that so far as regards the balance of trade, 'Germany's trade with British India, too, appears to have followed more or less the same course as her trade with non-European countries with which she has clearing and payment agreements'—*Indian Trade Journal*, 10 March 1938.

be reckoned with. Her bid for securing independence in respect of raw materials essential for industry or military defence found decisive practical expression in the Four-Year Plan for self-sufficiency, announced at the Nuremburg Congress in the autumn of 1936[1] Self-sufficiency is the solution of Nazi Germany for the serious problem of her balance of trade: it appears, indeed, that not only political and strategic but essentially economic considerations also, underly her present trend towards insulation, which, at least in origin, was not entirely of her choice How marked this trend has been appears from the fact that the quantum of Germany's import and export trade had shrunk by 1936, when the quantum of world trade was 86 per cent of its 1929 level, to 64 and 59 per cent respectively.[2]

Though important difficulties remain to be overcome on many sides, 'it can be said that the German policy of self-sufficiency is meeting with considerable success—at least as far as the technical side of it is concerned '.[3] But the economic cost will doubtless be heavy and should by itself tend to perpetuate schemes of self-sufficiency.[4] There is, however, a more hopeful view of the future of trade policy in Germany: 'Quite definitely, it is not the aim of the Four-Year Plan to effect economic isolation for Germany. On the contrary, the intention is, once the necessary foundations for safeguarding the barest necessities are firmly established, Germany is to participate, at least to the same, if possible to an even greater

[1] It is the declared object of this Plan to render Germany independent from outside supplies of textiles and oil and to reduce to a minimum her dependence on imports of base metals, iron ore and rubber In pursuance of this objective, every attempt is being made to speed up the production of artificial or synthetic substitutes for these commodities by State subsidies and control of industry, besides increasing use of regeneration processes to minimize waste Also, the productive capacity of German agriculture is being pushed noticeably in respect of vegetable oils and fats

[2] In 1937 the quantum of world trade improved to 97 per cent, and of German import and export trade to 75 and 69 per cent respectively

[3] *The Banker*, February 1937, 'Results of Four Years of National Socialism', p 168 In respect of agriculture, the policy of self-sufficiency does not appear to have been attended with a noteworthy measure of success cf *Quarterly Journal of Economics*, May 1938, article by Frieda Wunderlich on 'Germany's Defence Economy and the Decay of Capitalism' 'After five years of autarchic policy the productive capacity of agriculture has been seriously impaired and dependence on foreign supplies has increased'

[4] A second Four-Year Plan has since been announced.

degree than before, in international commodity exchange. Independence is the goal, not self-sufficiency."[1]

The actual trend of events offers small warrant for the hope expressed in the above statement. The recent widening of the political and economic frontiers of Germany[2] will make for greater economic insulation. It marks an advance in the direction of economic penetration of south-eastern Europe, which remains a constant objective of German policy: Germany's twofold aim is to increase her self-sufficiency in primary products and to foster her manufacturing industry on the base of the agricultural East as a kind of hinterland.[3] Control over the resources of south-eastern Europe could make Germany self-sufficient in respect of such commodities as cereals, tobacco, timber, skins and leather, besides others, and give access to substantial quantities of metallic ores (including manganese ore), fats (oil-seeds) and textile fibres (cotton and wool) It is most unlikely that Germany should be deflected from the pursuit of her present goal—whether she succeeds in attaining it is a matter apart—by any temporary prospect of obtaining raw materials from a source that might prove inaccessible in the event of war. Here, then, is a serious threat to the future of India's export trade with the whole of middle and eastern Europe. It may not fully materialize. But, at any rate, so far as present indications go, there appears little likelihood of gaining any large additional market for Indian exports in that area in the near future.

4. THE COURSE OF INDO-GERMAN TRADE

The following table shows the course of Indo-German trade during the last ten years.[4]

[1] *Commerce*, 9 July 1938, article by Dr W Hoffman, Hamburg General Manager of the Hamburg America Line, on 'Germany and the World Trade'

[2] Following the *Anschluss* with Austria and Sudetenland in March 1938 and October 1938 respectively, Germany has more or less incorporated Bohemia, Moravia, Slovakia and Memelland into the Reich and in March 1939 she concluded an economic agreement of extensive scope with Roumania

[3] 'It has been estimated that east European countries could provide something like 50 per cent of Germany's import requirements in raw materials'—*Economist*, 5 November 1938, article on 'Germany's Trade Offensive'.

[4] Department of Overseas Trade *Report on Economic Conditions in Germany*, to June 1934, p 106, ibid, to March 1936, p 261, *International Trade Statistics*, 1936.

TABLE XVIII

Course of Indo-German Trade (German Statistics)[1]

(RM millions)

	1928	1931	1935	1936	1937
Imports into Germany from India	711	281 (4 3%)	121 (2 9%)	142 (3·4%)	169 (3 1%)
Exports from Germany to India	223	158	111	122	148
Balance	−488	−123	−10	−20	−21

Course of Indo-German Trade (Indian Statistics)[1]

(Rs crores)

	1928-9	1931-2	1935-6	1936-7	1937-8
Imports into India from Germany	15 8	10 2	12 3	12 1	15 3
Exports from India to Germany	32 5	10 4	9 6	10 1	9 8
Balance	+16 7	+0 2	−2 7	−2	−5 5

A study of the course of Indo-German trade during the last decade, especially the last five years, reveals a highly unsatisfactory situation for India's export trade with Germany The result is, however, quite in keeping with the developments in German trade and trade policy outlined above

According to German figures, Germany's large import surplus in her trade with India (RM. 488 millions in 1928) has almost vanished (being only RM 10 millions in 1935). Imports from India in 1935 (RM. 121 millions) were only one-sixth of what they had been in 1928 (RM. 711 millions).

[1] A certain discrepancy between Indian and German statistics is apparent from the tables given above For instance, during the last two years included in the tables, an import balance is shown both for Germany and for India according to German and Indian statistics respectively The explanation of the somewhat wide disparity disclosed by the above figures lies in the difference in the system of compiling trade statistics in India and Germany Under the system of registration in India imports and exports are credited to the country of consignment, i e respectively the country from which they are received or to which they are intended to pass, without interruption of transit except in the course of transhipment On the other hand, the returns of Germany show the actual source of origin and the ultimate destination of goods Thus large quantities of Indian goods, which are nominally exported from India to Dutch, Belgian and French ports to save freight, find their way to Germany and are shown in German statistics as derived from India See letter dated 8 October 1935, from the Government of India to the Indian Merchants' Chamber in the Annual *Report* of the Chamber for 1935, p 324 Also see *Capital*, 20 June 1935, a note on 'The Indo-German Trade Balance'

German exports to India were in the meantime reduced by only one-half (from RM. 220 millions to RM. 111 millions). Almost an even balance has thus been brought about between commodity trade in either direction[1] This is mainly due to the fact that from October 1934 to February 1937, trade between India and Germany was almost entirely conducted on a barter basis in accordance with regulations laid down by the German Government.[2]

In the light of the above survey of the motives, methods and effects of German trade policy, the decline and disappearance of India's export surplus with Germany would appear to have been largely unavoidable. A good clearing agreement with Germany might have retarded the decline of India's export trade, but the quick contraction of the favourable balance was part of a general tendency, the necessary incident of the bilateralization of trade. The exports could in effect have been sustained only by giving a fillip to imports, which might have raised problems of its own. Any plan for the promotion of trade with Germany must be conditioned by the underlying circumstances which have been indicated above. A relaxation of the comprehensive control of trade in that country could alone provide the basis for an expansion of trade more nearly on the old scale and on the old lines.

5. Trends in Commercial Policy : France

Growth of French Colonial Trade

An important aspect of French trade policy has been the principle and practice of very close trade relations between France and the French Overseas Territories with a view to fostering the economic unity of 'Greater France'. Among

[1] The situation appears all the more serious according to Indian statistics, which actually show a growing import balance, but Indian statistics in this respect are not strictly reliable as has been shown in the last footnote

[2] The foreign exporter wishing to trade with Germany could exchange his commodities with German manufactured goods at a ratio which depended on whether the goods were classified in Germany as 'essential' or 'non-essential' imports Goods falling under the former category could be imported against German exports at a ratio of 1 1 and under the latter at 1 3 Since 23 February 1937, transactions between Germany and India have been restored to a cash basis, but the import trade is still subject to the same strict control by licence

the factors that recently reinforced this tendency were 'the shrinkage of foreign markets, the more intense sense of economic nationalism, the calling together of the Ottawa Conference of the British Dominions for considering closer trade ties with the United Kingdom'.[1]

The effect of this policy is reflected in the following percentage figures of French trade with the Overseas Territories [2]

TABLE XIX

Percentage of French Overseas Territories in French Trade

	1922-6	1929	1931	1932	1933	1934	1935	1936	1937
Imports into France	10 8	12	14 7	20 9	23 7	25·3	25 7	28 5	24 4
Exports from France	14 6	18·8	24	31 5	32 4	30·9	31 6	33 2	28 3

Up to 1936 there was a striking and continuous advance in the share of the Overseas Territories of French trade, especially marked in the first two years of falling prices and general currency chaos In 1937 there has been a decline in this share The earlier increase was not, indeed, entirely due to Imperial economic policy, but was partly the reflection of special currency and customs relations between the French home and overseas territories, which came to an end with the depreciation of the franc in September 1936.[3]

Interesting and important changes can be observed in the commodity composition of French trade with the Colonies shown overleaf [4]

A look at the figures relating to the composition of French imports from Colonies (B) shows that they are made up of a

[1] Department of Overseas Trade *Report on Economic Conditions in France*, June 1934, p 514

[2] ibid, p 512, *Board of Trade Journal*, 14 March 1935, p 454, 13 February 1936, p 240, *Royal Economic Society Memorandum No 64*, February 1937, p 6, *Review of World Trade*, 1937, p 40

[3] 'The relative increase in this (French inter-Imperial) trade during the period of falling world market prices was not wholly due to a quantitative redistribution of trade, but to a certain extent to the fact that the partial assimilation of these territories to the French Customs area had permitted the application of higher average prices than in trade with foreign countries'—*Review of World Trade*, 1937, p 41

[4] Grover Clark, *The Balance Sheets of Imperialism*, 1936, p 88

TABLE XX

French Imports from Colonies by Groups of Commodities

	A Percentage of Class Total Imports from Colonies		B Percentage of Colonial Total Imports by Class	
	Average of 1929-33	1934	Average of 1929-33	1934
Foodstuffs . .	43 2	63	78 7	80·8
Raw materials and partly manufactured goods	5·8	9	19 5	17 7
Manufactured goods . .	1 4	2·1	1 8	1 5
Total . .	15·5	25·2	100	100

small and stationary proportion of manufactured goods, a fair but relatively declining proportion of raw materials, and a predominant and increasing percentage of foodstuffs. Again, a reference to the sources of origin of imports of foodstuffs (A) shows that a large and increasing proportion of them are derived from the Colonies. The same is not equally true of raw materials. Imperial self-sufficiency for France may be near in respect of foodstuffs; it is remote in regard to raw materials.

In so far as closer connexion with the Colonies is responsible for any loss to Indian trade with France, a modification of French Imperial economic policy as a result of a fundamental revision of attitude towards the dependent Empire jointly with the United Kingdom and other powers appears to be the only practicable line of alleviation.[1]

French Quota Policy

Probably the most important aspect of the recent commercial policy of France relates to developments of the import quota system.[2] This is not the place to follow out the ramifications of that system. It may suffice to record the conclusion based on a careful study of its working that it has not on the whole involved discrimination against Indian exports [3]

[1] See below Chapter X, 2.

[2] A clear account of the evolution of this system through its various stages until 1935 is given in F A Haight, *French Import Quotas*, 1935, Chapter I

[3] See *Report* of the Indian Trade Commissioner at Hamburg, 1935-6, also Ghosh, op cit, p 23

6. The Course of Indo-French Trade

The following tables show the course of Indo-French trade for a number of years.

Table XXI

Course of Indo-French Trade

A French Trade with India

	1929	1931	1934	1936	1937
Percentage of Imports from India	4 7	2 8	2 3	3 1	2·7
Percentage of Exports to India	0 9	0 8	0·5	0 4	0 5
Imports as multiple of Exports	6 1	4·8	5 8	11 1	9·8

B. Indian Trade with France

(Value in Rs. crores)

	1929-30	1931-2	1934-5	1936-7	1937-8
Imports from France	4 6	2 2	1 5	1 1	1 4
Exports including re-exports to France	16 9	7 7	5 4	8 2	5 2
Balance of Exports	12 3	5 5	3 9	7 1	3 8
Exports as multiple of Imports	3 7	3 5	3 6	7 2	3 7

An outstanding feature of the above figures relating to Indo-French trade is the high multiple which French imports from India form of French exports to India (or Indian exports to France form of Indian imports from France) This largely one-sided character of trade explains the innate weakness of India's position in any attempt to secure an expansion of her exports to France by means of a reciprocal bilateral treaty. Another fact which emerges prominently from the above figures is the great decline in India's export surplus with France from over 12 crores in 1929-30 to less than 4 crores in 1934-5 as a result of contraction in about equal proportion of both exports and imports Since 1934-5, there has occurred an appreciable increase in the export surplus due to a further contraction of imports and a large increase of exports. Incidentally, the high ratio of exports to imports has become

still higher : India's power to bargain for 'definite' advantages in the French market has been further seriously impaired.[1]

The occasion for the exercise of India's bargaining power in respect of trade relations with France, or the need for a trade treaty with that country, arises out of the fact that Indian exports are subject there to the maximum tariff, which is normally applicable in the absence of agreements to the contrary. There could be no more fruitful line of approach to the problem of developing Indian trade with France than the conclusion of a reciprocal most-favoured-nation treaty that might make Indian exports eligible under the minimum tariff. If at all found possible, this would involve, on the Indian side, reduction of the scope as well as margin of preference for the United Kingdom, which might in turn involve a reduction of both the general and preferential tariffs, in respect of certain goods in which France is specially interested.

Given the course of Indo-French trade in the past, an increase of trade between the two countries may be expected to stimulate Indian exports to France more than French imports into India. A liberation of trade between the two countries, not on a strictly reciprocal, but on a general basis, should yield really satisfactory results, and is, therefore, much to be desired.

[1] This applies particularly to 1936-7 In 1937-8 the position reverted to much the same as it was in 1934-5

CHAPTER IV

ANALYSIS OF PREFERRED EXPORTS: GROUPS OF COMMODITIES

1. GENERAL

HAVING examined the factors bearing on the export trade and its distribution among important customers during recent years, we may proceed to make a more minute study of the effects of the preferences Commodities enjoying preference in the United Kingdom are considered first. An examination of non-preferred commodities will be made at a later stage.[1]

The extension and development of export trade is the most general aim of tariff or trade treaties. It was the avowed object of the Indo-British Trade Agreement concluded at Ottawa. Only a few observations on the criteria for a successful agreement are, therefore, necessary. A trade agreement between two parties which involves discrimination on either side in favour of the other and against all non-agreement countries, by the exchange of reciprocal tariff preferences, like the Ottawa Agreement between the United Kingdom and India, would naturally tend to stimulate their trade with one another relatively to their trade with other countries. In the case of such an agreement, however, an 'extension and development of the export trade' of one country, say A, would really be secured if there were not only an increase in its exports to the other country, say B, but if a *net* increase in A's exports took place, after allowing for any incidental reduction of exports to third country markets. Now, for one thing, the capacity of third countries to take A's exports may be reduced, because their own power to export is restricted by the double discrimination against them in A and in B. And, secondly, in so far as their own exports compete directly with A's exports, the competition with the latter will be the intenser for the discrimination against third countries in B's market.

This task of estimating the *net* increase in trade which may be specifically assigned to one out of many, varied and complex

[1] See below Chapter VI, 2

factors bearing on trade during a period is difficult at any time. During a period like the quinquennium 1932-6, it becomes all the more difficult, since the equilibrium of other factors that conditioned trade was constantly shifting. Nevertheless, a detailed analysis should help to assess approximately the relative importance of various factors in the case of particular commodities and make possible certain broad conclusions as to the effects of the preferences on the whole.

Basis of Classification of Preferred Exports

The preferred commodities[1] may be classified into four main groups (with a fifth miscellaneous one) according to the relative importance of competition from the Empire and foreign countries in the United Kingdom market. Thus, the four classes would broadly be composed of commodities in respect of which there existed before the grant of preferences (1) little competition from within or outside the Empire; (2) little competition from within the Empire, but strong competition from outside; (3) strong competition from within the Empire, but relatively little competition from outside; and (4) strong and intense competition from within as well as outside the Empire. On this basis the preferred articles are grouped thus:—Group I: jute manufactures, tanned hides and skins, coir yarn and mats and matting, teakwood, castor seed and raw goatskins;[2] Group II: rice cleaned and whole, linseed, paraffin wax, woollen carpets and rugs, bran and pollard and rice meal and dust, and oil-seed cake and meal; Group III: tea, ground-nuts and pig lead; Group IV: tobacco unmanufactured as well as manufactured, coffee, spices, pulses and beans,[2] vegetable oils, and bones and manures;[2] and Group V (miscellaneous): wheat, barley,[2] cotton yarn and manufactures, magnesite, granite sets and kerbs, other hardwoods, sandalwood oil, and miscellaneous food grains.[2]

[1] Besides preference, the Agreement provided for the admission into the United Kingdom free of duty from all sources of shellac, seed lac and stick lac, raw jute, myrobalans, broken rice, mica slabs and splittings and *Crotalaria juncea* and any other varieties of Indian hemp that could be distinguished. See Postscript

[2] The preference is not included in any of the Schedules to the Agreement, but accrues under Article 1, which guarantees free entry into the United Kingdom after 15 November 1932, of such Indian commodities as were free of duty by virtue of the Import Duties Act, 1932.

In the case of the first and fourth groups, the scope for increase of exports to the United Kingdom was relatively small. A near outer limit was set in the case of the first group by the limited capacity of the United Kingdom market compared to total exports from India. In the last case, it was the smallness of the total Indian exports relatively to the size of the United Kingdom demand (indicative of the comparative weakness of India's position), which set limits to the possible increase. The scope for expansion of exports was largest, and the conditions were *prima facie* most favourable, in regard to the second group, while the consequences of India's exclusion from the preferences were likely to be most serious for the third group of commodities.

2. Group I: All Commodities

For all the commodities included in Group I except raw goatskins, in 1931 India was by far the most important supplier to the United Kingdom market within the Empire. She constituted practically the sole Empire source of supply for castor seed and coir mats and matting[1] The preference was, therefore, little shared by other Empire countries.

India's position in respect of this group of commodities was, however, strong also against foreign countries. So that, with little serious competition to face either from within or outside the Empire, she was in a strong situation to seize the small additional market available by replacing foreign imports

The table overleaf gives the broad origin of total United Kingdom imports of commodities in this group.

It appears from this table that total United Kingdom imports fell sharply in 1932, recovered inappreciably up to 1935 and advanced phenomenally in 1936 to a level above that of 1931. Imports from India formed nearly 73 per cent of the total in 1931 They declined relatively less than foreign imports in 1932, and their proportion accordingly went up to over 85 per cent Thereafter, a steady improvement in the absolute volume as well as the relative share of imports

[1] Coir fibre is imported in substantial quantities from Ceylon and there is some competition in coir yarn also from that country, but United Kingdom imports of coir mats and matting are almost all from India

TABLE XXII

United Kingdom Imports of All Articles in Group I

(£ millions)

From	1931	1932	1933	1934	1935	1936
India	6 77	6·17	6·34	6 52	6·61	9 36
Other Empire Countries	·6	·43	·42	·44	·42	·45
All Empire Countries	7 37	6 6	6 76	6·96	7·03	9·81
Foreign Countries	1·95	·62	·47	·42	·45	·68
Total	9·32	7 22	7·23	7·38	7 49	10 49

Percentages

From	1931	1932	1933	1934	1935	1936
India	72·6	85 4	87 7	88 3	88·3	89 2
Other Empire Countries	6 4	7 4	5·7	5·9	5 7	4 3
All Empire Countries	79	92 8	93 4	94 2	94	93 5
Foreign Countries	21	7 2	6 6	5 8	6	6 5
Total	100	100	100	100	100	100

from India set in. By 1935, they had risen to over 88 per cent of the total imports and in 1936 became 89 per cent of imports from all sources. The share of other Empire countries was throughout small and latterly somewhat declining The largest part of India's gain was at the expense of foreign countries which lost heavily, their share being reduced from 21 per cent in 1931 to 7·2 per cent in 1932, and 6·5 per cent in 1936.

It will thus be observed that after five years of working of the preferential duties both the absolute volume and proportion of imports from India had improved appreciably. Most of the relative improvement occurred in 1932, at a time of declining trade. The entire absolute increase took place in 1936, at a time of rapidly improving demand : the already established position of India in the United Kingdom market enabled her to have the major share of the advantage of this improvement in demand.

The following table shows the course of exports of all articles in this group from India.

TABLE XXIII

Indian Exports of All Articles in Group I

(Rs. crores)

To	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom ..	8·82	7·79	9·05	8 39	9 29	11·72
Other Countries	24 92	23·38	23 92	23 3	26·03	29 7
Total . .	33 74	31 15	32 97	31·69	35·32	41·42
United Kingdom, per cent	*26*	*25*	*27*	*26*	*26*	*28*

The Indian exports to all countries of articles in this group were valued at Rs. $33\frac{3}{4}$ crores in 1931-2, $35\frac{1}{3}$ crores in 1935-6 and nearly $41\frac{1}{2}$ crores in 1936-7. Exports to the United Kingdom meanwhile increased from 8·8 crores in 1931-2 to 9·3 crores in 1935-6, and further to 11·7 crores in 1936-7. The proportion of exports taken by the United Kingdom was 26 per cent in 1935-6 as in 1931-2. It improved 28 per cent in 1936-7, owing to a relatively larger increase in exports to the United Kingdom than to other countries.

No phenomenal advantage was expected to flow from the operation of the preferences in this group of articles. Indeed, since nearly three-quarters of Indian exports find a market outside the United Kingdom, the preference to Indian goods in that country, by excluding rival supplies, should intensify competition elsewhere and the consequent loss should neutralize the gain made in the United Kingdom. This statement is not ordinarily open to question. However, its truth is necessarily qualified in the present state of commercial policy in the world. As things are, that part of the increased exports of Rs. 2 5 crores to the United Kingdom which was due to the preference could not have been completely offset by *incidental* losses in other countries. The preference would remain a real advantage so long as foreign markets are hedged about by restrictions and access to them is regulated by special and exclusive treaties The uncertain outlook of world markets naturally puts a premium on an assured outlet for a substantial proportion of the export trade.

3. Group II: All Commodities

The second group is comprised of rice cleaned and whole, linseed, paraffin wax, woollen carpets and rugs, bran and pollard and rice meal and dust, and oil-seed cake and meal. In regard to all these commodities, India has to face little or no competition from the other Empire countries in the United Kingdom market But the imports from foreign countries were quite substantial before the grant of preference. *Prima facie*, therefore, there was appreciable scope for expansion of imports from India to replace foreign imports. Also, the total exports of these commodities from India are much larger than exports to the United Kingdom (except in the case of woollen carpets and rugs, and bran and pollard, of which the greater part are sent to that country). This made the *prima facie* possibility a strong probability.

Table XXIV

United Kingdom Imports of All Articles in Group II

(£ millions)

From	1931	1932	1933	1934	1935	1936
India	2 63	2 6	4·06	4·9	4 09	6 52
Other Empire Countries	11	59	·43	63	·53	37
All Empire Countries	2 74	3·19	4 49	5 53	4·62	6 89
Foreign Countries	8·08	7 91	4·59	4 65	6 3	5 15
Total	10 82	11·1	9·08	10·18	10·92	12·04
Percentages						
India	24	24	45	48	37	54
Other Empire Countries	1	5	5	6	5	3
All Empire Countries	25	29	50	54	42	57
Foreign Countries	75	71	50	46	58	43
Total	100	100	100	100	100	100

Total imports increased moderately from £10·8 millions in 1931 to £12 millions in 1936; imports from India increased remarkably from £2·6 millions in 1931 to £4·1

millions in 1935 and £6·5 millions in 1936; imports from the rest of the Empire went up from £112,000 in 1931 to £529,000 in 1935 but dropped to £366,000 in 1936; imports from foreign countries declined from £8·1 millions in 1931 to £5·1 millions in 1936.

The relative share of India was 24 per cent in 1931, rose rapidly to 48 per cent in 1934, receded in 1935 and shot up again in 1936 to 54 per cent of the total imports. The inappreciable proportion contributed by the other Empire countries rose from 1 per cent to 5 per cent in 1932 and dropped to 3 per cent in 1936. The foreign countries lost where India gained: their percentage share fell from 75 to 43 per cent. Most of the relative and absolute improvement in imports from India was due to the exceptionally low imports of linseed in 1931 and their unprecedentedly high level in 1936. An increase of considerably over a million pounds, however, was distributed in greater or less degree over other commodities.[1]

The increase in Indian exports to the United Kingdom appears equally remarkable according to Indian statistics.

TABLE XXV

Indian Exports of All Articles in Group II

(Rs crores)

To	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	2 81	2 59	4 67	4 73	4 67	7 31
Other Countries	21 76	17 38	15 25	13 93	14 03	14 68
Total .	24 57	19 97	19 92	18 66	18 7	21 99
United Kingdom, per cent .	*12*	*13*	*23*	*25*	*25*	*34*

Total exports of these commodities declined from 24½ crores in 1931-2 to 20 crores in the next year and further to 18⅝ crores in 1934-5. They revived to 22 crores in 1936-7. Most of the earlier decline occurred in exports to countries other than the United Kingdom, most of the later revival, in exports to the United Kingdom Indeed, after 1932-3, exports to the United Kingdom have been increasing all along; up to 1935-6, exports to other countries were continuously on the decline.

[1] See below Chapter V, 2

The most phenomenal advances in exports to the United Kingdom took place in 1933-4 and 1936-7; the most spectacular drop in exports to other countries occurred in the first four years of the period.

Over the period as a whole exports to the United Kingdom improved to the extent of 4·5 crores, or by 160 per cent from 2·8 crores to 7·3 crores; their relative share of the total went up from 12 to 34 per cent. As in the case of imports into the United Kingdom, much the greater part of the increase in exports to the United Kingdom is accounted for by the abnormally small exports of linseed in the first year and their unusually high level in recent years. There remains, however, a considerable increase of a crore and a half distributed over other commodities. Of the increased exports of linseed, too, a not inconsiderable part would appear to have been due to the operation of the preference in the United Kingdom.[1]

It is not possible to say exactly to what extent the drastic contraction in exports to foreign countries, from 22 crores in 1931-2 to 15 crores in 1935-6, might be due to severer competition in non-British markets from foreign supplies turned away from the United Kingdom. Much the greater part of this contraction, however, would appear to have been due to the growing trend to self-sufficiency in the industrial countries of Europe, particularly marked in respect of articles of food and feeding stuffs for cattle which preponderate in this group.

4. Group III: All Commodities

The third group is made up of tea, ground-nuts, and pig lead, commodities in regard to which India has to meet with strong competition from powerful and growing rivals within the Empire. The position of the Empire as a whole is, however, of exceptional strength as compared with the foreign countries, imports from which are relatively small. Any large expansion of exports to the United Kingdom could not, therefore, *prima facie* be expected to result from the preference.

The following table shows the relative importance of India, the Empire and non-Empire countries for the supply of all articles in this group to the United Kingdom.

[1] See below Chapter V, 2.

TABLE XXVI

United Kingdom Imports of All Articles in Group III

(£ millions)

From	1931	1932	1933	1934	1935	1936
India .	16 3	14 4	15 5	16 1	16·6	17
Other Empire Countries ..	13 1	12 1	11·5	12·9	13·3	15·1
All Empire Countries.	29 4	26·5	27	29	29·9	32 1
Non-Empire Countries	5 6	3 3	2·8	2 4	2 4	3 1
Total ..	35	29·8	29 8	31·4	32 3	35 2

Percentages

From	1931	1932	1933	1934	1935	1936
India .	47	48	52	50	52	48
Other Empire Countries	37	41	39	40	41	43
All Empire Countries .	84	89	91	90	93	91
Non-Empire Countries	16	11	9	10	7	9
Total	100	100	100	100	100	100

Total United Kingdom imports of articles in the third group were £35 millions in 1936 as in 1931 Between these two years there had been, first, a swift decline to £30 millions in 1932, a steady recovery to £32 millions in 1935 and a speedy rise in 1936 to the level of 1931.

In 1931, 47 per cent of the imports (£16·3 millions) were derived from India, 37 per cent (£13·1 millions) from the other Empire countries, or in all 84 per cent (£29·4 millions) from the whole Empire. The decline in imports from India and the rest of the Empire was relatively smaller than in foreign imports, in 1932, their relative share accordingly improved to 48 per cent and 41 per cent respectively By 1935, imports from India as well as from the rest of the Empire had recovered to a little above their 1931 level (£16·6 and £13·3 millions respectively): their relative share stood at 52 and 41 per cent and of the whole Empire at 93 per cent of the total imports. In 1936, there was a slight advance in imports from India, a relatively appreciable improvement in imports from the rest of the Empire as well as foreign

countries and a consequent reduction and rise in their relative shares to 48 and 43 per cent respectively.

The percentage of imports from non-Empire countries fell steadily from 16 in 1931 to 7 in 1935, and recovered to 9 in 1936. Over the period as a whole, India and the other Empire countries would appear to have benefited in about equal degree at the expense of foreign countries.

Tea completely dominates the United Kingdom imports of articles in this group. Imports of tea from India, after alternately falling and rising, stood at the same level in 1935 and nearly the same level in 1936 as in 1931, £14·7 millions. Imports from foreign and other Empire countries had meanwhile been greatly reduced from £14·9 millions in 1931 to £11·9 millions in 1936. The small *relative* increase in India's share of United Kingdom imports of this group of articles between 1931 and 1936 is, thus, more than accounted for. The small *absolute* increase of £700,000 may be ascribed largely to ground-nuts, which went up by £550,000 from £930,000 to £1·48 millions. Imports of Indian pig lead also increased in 1936 over 1931 by £260,000 from £640,000 to £900,000: their relative share, however, fell appreciably, as imports from other (mainly Empire) countries increased simultaneously from £3·3 millions to £5·4 millions.

Indeed, in respect of these articles the main competition comes now from Empire sources. Preference as such can be of small help for extending the United Kingdom market for Indian products. But precisely because of the strong competition of the other Empire countries, the results of India's exclusion from any preferences extended to them would be serious.

The table on the next page gives a broad view of the exports from India in this group of articles.

Total exports from India stood at 31⅓ crores in 1931-2, fell precipitously to 26 crores in the next year, recovered to 29⅓ crores by 1935-6 and shot up in conformity with the general trend to 34⅝ crores in 1936-7. The proportion to the United Kingdom rose in the first four years from 61 per cent to 75 per cent and fell in the last two years to 61 per cent again. The earlier increase in this proportion was partly due to an absolute increase in exports to the United Kingdom

TABLE XXVII

Indian Exports of All Articles in Group III

(Rs crores)

To	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	19 12	16 60	19 57	20 79	20·16	21·04
Other Countries	12·24	9 33	8 8	7 05	9·16	13 64
Total	31 36	25 93	28 37	27 84	29·32	34 68
United Kingdom, per cent	*61*	*64*	*69*	*75*	*69*	*61*

by $1\frac{5}{8}$ crores, from $19\frac{1}{8}$ crores to $20\frac{3}{4}$ crores, but largely *to* a reduction in exports to other countries from $12\frac{1}{4}$ crores to only 7 crores in 1934-5. The later decline occurred as a result of nearly 100 per cent increase in exports to other countries to $13\frac{5}{8}$ crores, while exports to the United Kingdom expanded by a bare quarter of a crore in two years.

The marked stabilizing effect of the United Kingdom demand—only in small part due to the preference—is strikingly illustrated in the above analysis.

The conclusion stated above as to the value of the preference in a negative or preventive sense appears particularly apt in view of the overwhelming importance of the United Kingdom market for Indian exports of these articles For the present, however, the significance of this conclusion is reduced by the fact that the trade in tea is subject to international regulation, pig lead is a Burma product, and the greater part of ground-nuts are marketed outside the United Kingdom.

5 GROUP IV: ALL COMMODITIES

The fourth group includes in the order of importance of the value of United Kingdom imports from India in 1931, tobacco (unmanufactured as well as manufactured), coffee, spices, pulses and beans, vegetable oils, and bones and manures. India supplies only a small part of the United Kingdom requirements of these commodities. Imports from other Empire countries are much more important than imports from India, and imports from non-Empire countries are, again, far greater than imports from the whole Empire

TABLE XXVIII

United Kingdom Imports of All Articles in Group IV

(£ millions)

From	1931	1932	1933	1934	1935	1936
India .	·92	1·04	1 13	1 02	1	1 28
Other Empire Countries .	3 84	4·34	4·19	4 3	3 52	3 02
All Empire Countries ..	4·76	5 38	5 32	5 32	4·52	4·30
Non-Empire Countries	16 22	12·72	13 02	19·03	19·59	19 85
Total ..	20 98	18·1	18·34	24 35	24·11	24·15
Percentages						
India	4 3	5·7	6·1	4·1	4·2	5·3
Other Empire Countries .	19	24	23	18	15	13
All Empire Countries	23	30	29	22	19	18
Non-Empire Countries	77	70	71	78	81	82
Total ..	100	100	100	100	100	100

Like most other commodities total imports of these articles declined substantially in 1932, but unlike other commodities showed an abrupt and remarkable rise by 33 per cent in 1934, remaining more or less constant thereafter.

As regards the relative shares of the Empire and non-Empire countries, it will be noticed that in 1932, the position of the former improved appreciably, from 23 to 30 per cent, at the expense of the latter. Since 1932, the relatively small share of the Empire has continuously declined to 18 per cent, the already large share of foreign countries has steadily risen to 82 per cent.

Within the Empire, India has made some advance in her small share relatively to other countries, who have borne the brunt of the decline. In absolute terms also India has had a modest share (noticeable in 1936) of the considerable expansion of the United Kingdom market for foreign imports of these articles.

The abrupt increase in foreign imports from 13 crores to 19 crores in 1934 was mainly due to an increase of 60 per cent

valued at £5 millions in tobacco. The decline in imports from Other Empire countries was largely accounted for by the continued fall in the imports of coffee and the collapse of the pepper boom in 1935, which incidentally almost wiped away the Indian spice trade. If, nevertheless, total imports from India were higher in 1936 than in 1931, and their percentage larger, the credit was due to increased imports of vegetable oils, tobacco (unmanufactured), manures and bones, and coffee in the order of the extent of addition to Indian imports.

The following figures show the trends in the Indian exports of all articles in the fourth group from 1931 to 1936.

TABLE XXIX

Indian Exports of All Articles in Group IV

(Rs. crores)

	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	1·04	1·31	1·25	1·15	1·29	1·2
Other Countries	3·25	2·97	3·07	2·90	2·84	3·19
Total . .	4·29	4·28	4·32	4·05	4·13	4·39
United Kingdom, per cent .	*24*	*31*	*29*	*28*	*31*	*27*

Unlike commodities in other groups no large variations have occurred in the total exports of these articles, except a small dip in 1934-5 and later recovery to a little above the average level of the first three years, 4·3 crores. Exports to the United Kingdom experienced a substantial improvement by 25 per cent in 1932-3, from 1·04 to 1·3 crores, but have since dropped to 1·2 crores in the last year. The proportion of such exports went up correspondingly from 24 to 31 per cent, and receded later to 27 per cent.

On the whole, a small addition to trade probably resulted from the preference. The essential weakness of the position of India (as of other Empire countries) in the United Kingdom market prevented her from making any substantial advance.

6. GROUP V · ALL COMMODITIES

In a fifth group have been placed various commodities the Indian exports of which at the time of the grant of preferences were small and unimportant and formed a negligible part

of the United Kingdom supplies, or in respect of which the United Kingdom market appeared to be of small present and prospective importance. The group includes wheat, barley, cotton yarn and manufactures, magnesite, granite sets and kerbs, other hardwoods and sandalwood oil, the items of dominating importance being wheat and cotton manufactures. The following table gives the imports into the United Kingdom of articles in Group V.

TABLE XXX

United Kingdom Imports of All Articles in Group V

(£ millions)

From	1931	1932	1933	1934	1935	1936
India	27	19	·17	23	·21	1·68
All Empire Countries	15 3	24 2	23 4	19 3	20 4	34 8
Non-Empire Countries	31 1	15 7	15 6	17 8	19 8	14 6
Total .	46 4	39·9	39	37 1	40 2	49 4
			Percentages			
India	6	5	4	6	5	3·4
All Empire Countries	33	61	60	52	51	70
Non-Empire Countries	67	39	40	48	49	30
Total	100	100	100	100	100	100

The very large total imports in this group slumped severely in 1932 by £6½ millions and by a further £2¾ millions in the course of the next two years. They rose as abruptly as they fell and in 1936 stood higher than in 1931. The earlier decline was due to a most drastic cut of over 80 per cent in the imports of cotton yarn and manufactures, the later quick improvement to the considerably enlarged imports of wheat.

The relative share of the Empire showed a remarkable increase from 33 per cent in 1931 to 61 per cent in 1932, receded to 52 per cent in 1934, looked up in 1935 and rose sharply again in 1936 to 70 per cent. Imports from India were comparatively insignificant until 1935, being only ½ per cent of the total In 1936, they multiplied over sevenfold to 3⅜ per cent of the total.

The very considerable increase in the relative share of the Empire was due mostly to a remarkable rise in the imports of wheat, but partly also to the practical disappearance of the large trade in foreign cotton manufactures. The increase in India's share in 1936, too, was the result of the revival of Indian wheat exports to the United Kingdom.

Below are shown the broad tendencies in the direction of Indian exports of all commodities in this group since 1931-2.

TABLE XXXI

Indian Exports of All Articles in Group I

(Rs crores)

To	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	·47	·42	·27	·33	·35	2·22
Other Countries	4·85	3·09	2·67	2·67	2·88	3·96
Total .	5·32	3·51	2·94	3	3·23	6·18
United Kingdom, per cent .	*9*	*12*	*9*	*11*	*11*	*36*

Total exports were considerably cut down from well over 5 crores to under 3 crores during the first three years. They nearly doubled in the last year. As in the case of imports into the United Kingdom, the earlier reduction was mainly accounted for by cotton manufactures, the later increase, by wheat The small exports to the United Kingdom declined from less than half a crore to a quarter of a crore in the first three years, revived to a third of a crore in the next two years and multiplied over sixfold in the last year, owing entirely to exports of wheat worth nearly two crores.

The preference on wheat, which the Indian Delegation regarded as of little immediate significance at the time it was granted,[1] became effective with the revival of Indian wheat exports Since the United Kingdom is our most important market, this preference will remain of undoubted value so long as exports continue The preference on other articles hardly appears to be of much significance on the whole, as their exports to the United Kingdom are relatively small.

It appears, thus, that the preferences granted to India in

[1] See below Chapter V, 5

the United Kingdom tariff have been helpful in greater or less degree in extending Indian exports to that country in all the five groups into which the preferred commodities have been divided. The gain has been most phenomenal in the second group of commodities, and least in the third and fourth groups. The results are in accord with *prima facie* expectations: it was in the second group and in the third and fourth groups respectively that India's position was seen to be strongest and weakest respectively for utilizing the preference to increase Indian exports.

The above is, however, only a partial and inadequate picture of the effects of preferences. It is an undoubtedly important part of the picture, which shows how far the preferences have been actually effective in accomplishing their first definite objective, namely extending the share of India of the United Kingdom market in respect of various groups of commodities, variously situated in regard to the conditions of competition. But the above account has given no idea of the indirect adverse repercussions of preferences in the United Kingdom on the position of exports to other countries; of the many and complex factors that have moulded the movements of trade in respect of particular commodities; of the important other influences that might have tended, like the preferences, to increase India's participation in the United Kingdom's import trade; of the counter-concessions that India has had to give in return for the preferences on her own exports, and the cost thus involved—all of which it is necessary to assess, if only approximately, to be able to form a reasonably accurate opinion of the working of preferences as a whole and of their net benefit or burden. This task is attempted in the following three chapters.

The next chapter gives the main results of a detailed analysis of the trade in individual commodities in order to bring out the effects of preferences on exports somewhat more clearly than it has been possible so far. The statistics on which this analysis is based are given in Appendix C.

CHAPTER V

ANALYSIS OF PREFERRED EXPORTS: INDIVIDUAL COMMODITIES

IN this chapter are briefly given the significant facts of the recent trade situation separately in regard to each important commodity receiving preference in the United Kingdom tariff so as to evaluate more carefully and somewhat more closely the effects of the preferences Conclusions have been hazarded on a general judgement of the whole available data in respect of particular commodities as to whether the preference has been of definite or doubtful value, or no value at all, and whether the measure of advantage has been considerable, appreciable, moderate, small or insignificant A broad view of the nature and extent of the outstanding net results of reciprocal preferences will be presented in the next chapter. There an illustrative attempt is also made to estimate the net addition of trade in respect of all preferred commodities which might be specifically assigned to the preferences as apart from other factors.

1 GROUP I: INDIVIDUAL COMMODITIES

Jute Manufactures[1]

(£1·63 millions, £2·39 millions; Rs. 1·86 crores, Rs 21·92 crores)[2]

India had to face some competition from the continental countries in the United Kingdom jute piecegoods trade before

[1] The preference on all classes of jute manufactures was increased from 10 per cent *ad valorem* under the Import Duties Act to 20 per cent on 1 January 1933 under the Ottawa Agreement On 1 January 1935 an alternative specific rate was introduced for carpets, floor rugs, etc —4½ annas per sq yard for hand-made and ¾ anna for other kinds, the higher alternative to apply The duty and preference on cordage, cables, ropes and twine was reduced to 15 per cent from the same date

[2] These figures refer to 1931 imports into the United Kingdom from India and all countries, and 1931-2 exports from India to the United Kingdom and all countries respectively They are meant to illustrate the relative magnitude in terms of value of the trade in the commodity against which they are noted Corresponding figures are given against each commodity dealt with in this chapter

the grant of preferences: 57 out of 72 million sq. yards in 1931 were derived from this country. That competition has been largely eliminated: from 1934 to 1936 India was practically the sole supplier in that line of goods to the United Kingdom.

In made-up jute goods India had a virtual monopoly of the United Kingdom market already in 1931, and the preference has made little difference to the pre-existing situation.

The tax on foreign jute manufactures did not operate merely as a preferential measure. It served also to protect the home industry of the United Kingdom. This is clear from the practical disappearance of United Kingdom imports of jute carpets, rugs and mats and other sorts of jute manufactures, which were mostly derived from foreign countries in 1931.[1] The demand for such commodities is being met presumably by the expansion of the home industry, as is suggested by the increasing imports of raw jute in recent years.[2]

Total Indian exports of gunny bags (in number) increased steadily from 389 millions to 459 millions between 1931-2 and 1935-6, and further appreciably to 567 millions in 1936-7. The United Kingdom share of the expanding total exports of gunny bags fell slightly from 12·2 per cent to 11·2 per cent in 1932-3 and continued at the same level until 1935-6. In the next year it revived to 12·4 per cent of a much larger total volume of exports.

Total exports of gunny cloth remained steady at a little over 1,000 million yards during the four years 1931-5. They increased to above 1,200 million yards in 1935-6 and further to 1,700 million yards in 1936-7. Exports to the United Kingdom were a little more than doubled during the period, and their relative share of total exports went up from 6·1 per cent in 1931-2 to 7·8 per cent in 1936-7. During intervening years, 1933-4 and 1934-5, it had, however, been as low as 4·9 and 4·6 per cent respectively.

Jute is a practical monopoly of India. It is not necessary to analyse its exports to other countries in detail to evaluate

[1] The value of such imports was reduced from £460,000 in 1931 to £15,000 in 1934

[2] Total imports of raw jute into the United Kingdom (almost all from India) during the six years from 1932 to 1937 were (in thousands of tons), 135, 169, 195, 173, 182 and 193.

the effects of preference On the whole, it does not appear that preference has resulted in any substantial benefit: the considerably increased United Kingdom imports in 1936 could not be ascribed to it. It is probable, however, that a small measure of advantage accrued in respect of the jute piecegoods trade.

Tanned Hides[1]

(£1·14 millions, £1·63 millions; Rs. 2·08 crores, Rs. 2·13 crores)

The United Kingdom imports of Indian hide leather increased from 189,000 cwt in 1931 to 326,000 cwt. in 1936. Their relative share of total went up during the same period from 63 to 93 per cent: imports from foreign countries declined heavily from 102,000 to a bare 21,000 cwt. The gain has been important and the preference has undoubtedly helped India to secure the major share of the recovery in demand

Total exports of tanned hides from India have doubled since 1932-3, increasing from 9,000 to 18,000 tons. Practically the whole of them are sent to the United Kingdom.

Since 1931 imports from India of undressed skin leather have expanded more than in proportion to the increase of total imports into the United Kingdom India's share accordingly rose from 67 per cent in 1931 (99,000 out of 148,000 cwt) to 75 per cent in 1934 (124,000 out of 165,000 cwt) There was little change in India's proportion after that

On the other hand, again, the relative share of the United Kingdom of steadily expanding exports from India has remained more or less unaltered at about 88 per cent.

There is a close adjustment of United Kingdom demand and Indian supplies of tanned hides and skins. The United Kingdom market is of outstanding importance from the point of view of Indian exports Also, India is pre-eminent as a source of supply for the United Kingdom. While this fact, as is commonly recognized, points to the small scope for displacement of foreign by Indian imports in the United

[1] A preference of 10 per cent *ad valorem* (which is the general rate) is given on 'leather, undressed—hides, other than sole leather'.

Kingdom market, it also suggests (e.g. in the case of tanned hides) that whatever gain is made in the United Kingdom market through this process is a *net* addition to Indian exports: there is slight offsetting loss in foreign markets, for there are little exports to them.

The preference has thus been a definite advantage in the case of tanned hides, and may help to maintain India's large share of the expanding United Kingdom demand. In the case of tanned skins, the preference has been of some limited value.

Teakwood[1]

(£0·46 millions, £0·61 millions; Rs. 34 lakhs, Rs. 57 lakhs)[2]

Teakwood, being mainly a product of Burma, has largely ceased to figure in Indian exports. The trade in this commodity—United Kingdom imports as well as Indian exports—has been subject to peculiarly violent variations as a result of the depression and subsequent recovery.

India's share of the rapidly expanding United Kingdom imports improved from 73 per cent in 1931 to 87 per cent in 1932, 91 per cent in 1933 and 92 per cent in 1935, but dropped to 83 per cent in 1936. The preference does appear to have enabled India to share in a greater measure than she otherwise could have shared, in the recent considerable expansion of the United Kingdom demand as a result of the boom in building and furniture trades.

Coir Manufactures[3]

(£0·98 millions, £1·28 millions; Rs. 99 lakhs, Rs. 1·9 crores)

Coir manufactures, including coir yarn and coir mats and matting, are derived almost entirely from the Empire, and India is by far the most important source of supply for both

In view of the insignificance of foreign imports of coir yarn into the United Kingdom, 1 per cent in 1931 and practically nil now, the preference hardly serves any purpose except

[1] The general rate is 10 per cent *ad valorem*, the preferential rate is free

[2] The corresponding figures for 1936 and 1936-7 were £0 92 millions and £1 07 millions, Rs 96 lakhs and Rs 1 46 crores respectively

[3] Coir yarn and coir mats and mattings enjoyed a preference of 10 per cent *ad valorem* from 1 March 1932 This was increased to 20 per cent in the case of the latter from 1 January 1933

perhaps as some safeguard for the preference on coir mats and matting Absolutely, the United Kingdom imports of this article contracted by 1933 to a bare third of their amount in 1931 and have not revived since.

India supplied four-fifths (5·3 million sq. yards) of the United Kingdom imports of coir mats and matting in 1931 (6·6 million sq. yards), the rest being derived mostly from foreign countries. The imposition of the tariff on foreign imports in 1932 practically excluded them from the United Kingdom market, which has since been almost entirely supplied by India (9·4 out of 9·5 million sq. yards in 1936).

The course of the Indian export trade in coir manufactures does not show that preference has been of any determining importance.[1] The relative share of the United Kingdom of the value of exports has continually declined from 52 per cent in 1931-2 to 32 per cent in 1935-6 and 36 per cent in 1936-7.[2]

Castor Seed[3]

(£292,000, £364,000; Rs 34 lakhs, Rs. 1·5 crores)

Total United Kingdom imports of castor seed fell from 31,000 tons in 1931 to 25,000 tons in 1932, rose steadily to 36,000 tons in 1935, and stood in 1936 at 30,000 tons. India's share of imports was 81 per cent in 1931, increased to 91 per cent in 1933 and 1934, but fell again to 70 per cent in 1936 and 63 per cent in 1937. The preference has obviously been

[1] In India's export trade, coir yarn forms a somewhat more valuable element than coir mats and matting, but the importance of the United Kingdom market is much greater for exports of the latter commodity. over two-thirds of the exports of coir mats and matting are sent to that country, and normally less than a fifth of the exports of coir yarn

[2] The figures of Indian exports on which these percentages are based are inclusive of exports from Indian State ports, which are generally more important than exports from British Indian ports In 1935-6, out of total exports of Rs 1 86 crores, 98 5 lakhs were from Indian State ports Failure to take account of this fact may lead to an erroneous conception of the facts of trade competition Thus Mr D Ghosh observes with regard to coir that 'the rest of the overseas Empire exports to the United Kingdom 6½ times as much as India' and proceeds to calculate 'the increment that would fall to India's share if as a result of the preference, the whole of the British market is captured by the overseas Empire countries' The 'overseas Empire countries' are, for the most part, no other than the Indian States There is, however, a limited amount of competition in coir yarn from Ceylon Imports of coir fibre are no doubt mostly derived from Ceylon, but in 1931, the total value of United Kingdom imports of raw coir were less than one-twentieth of those of imports of manufactured coir

[3] General rate—10 per cent *ad valorem*, preferential rate—free

ineffective for the purpose of extending India's share of the United Kingdom market. Precisely for this reason, however, it appears to be the more necessary as a protection against strong, persistent and growing foreign competition (from Brazil).

Total Indian exports of castor seed dropped continuously from 104,000 to 46,000 tons between 1931-2 and 1936-7. Exports to the United Kingdom rose from 23,000 tons in the first year to 30,000 tons in 1933-4 and fell back to the old level in 1935-6 and 1936-7. In 1937-8 they went down to 13,000 tons out of total exports of 42,000 tons. The relative share of the United Kingdom improved from 22 per cent in 1931-2 to 48 per cent in 1936-7. The preference does not appear to have been of any distinct positive benefit.

Raw Goatskins[1]

(£436,000, £824,000 ; Rs. 44 lakhs, Rs. 2·58 crores)

Of total imports of 8 million goatskins in 1931, 83 per cent (6·6 millions) were derived from the whole Empire and 50 per cent (4 millions) from India. By 1937, total imports had gone up to 10·8 millions, the proportion of imports from the Empire had risen to 94 per cent (10·2 millions) and of imports from India to 70 per cent (7·6 millions). The preference has thus helped in a distinct measure to advance India's share of the United Kingdom market.

Total Indian exports of raw goatskins increased from 20,300 tons in 1931-2 to 25,800 tons in 1933-4 and declined to 18,000 tons in 1936-7. They were a little higher in 1937-8. Exports to the United Kingdom increased from 3,500 tons or 17 per cent in the first year to 6,800 tons or 26 per cent in 1933-4, declined to 4,200 tons or 23 per cent in 1936-7, and rose again to 4,800 tons or 26 per cent in 1937-8.

2. Group II · Individual Commodities

Rice, Husked (excepting Broken Rice)[2]

(£198,000, £930,000 ; Rs. 27 lakhs, Rs. 17·4 crores)

Rice has dropped to a subordinate place among India's

[1] An unscheduled preference of 10 per cent *ad valorem* is given to Indian exports

[2] Preference 10 per cent *ad valorem* from 1 March 1932, 1d. per lb from 1 January 1933

exports with effect from April 1937. India is a net importer of rice from Burma, which used to account for most of the Indian exports prior to separation.

Total Indian rice exports dropped from 2·2 million tons (valued at Rs 17·4 crores) in 1931-2 to only 1·4 million tons (valued at Rs. 10·9 crores) in 1935-6, and were only slightly higher in 1936-7. Exports to the United Kingdom increased from 30,000 tons (valued at Rs. 27 lakhs) in 1931-2 to 63,000 tons (worth Rs. 43 lakhs) in 1934-5, but dropped to 45,000 tons (worth Rs. 36 lakhs) in 1936-7. Their relative share of the quantity of total exports was 1·4, 4·1 and 3·1 per cent respectively in the three years. Exports to the continental countries of Germany, the Netherlands, Poland and Belgium dropped heavily during the period from 543,000 to 222,000 tons, or from 24 to 15 per cent (of the total exports of cleaned, including broken, rice). On the whole, there has been a tendency for the export trade to drift away from continental Europe towards Asia and Africa and perhaps also the United Kingdom to a slight extent

Total United Kingdom imports of rice contracted between 1931 and 1936 from 1·44 million tons to 1·12 million tons. Imports from India increased from 450,000 to nearly 900,000 tons, from less than one-third to over three-fourths, between 1931 and 1935. In 1936, they fell to 760,000 tons or 68 per cent The preference was of undoubted value at a time when foreign, particularly European, markets were rapidly shrinking in pursuance of the trend of self-sufficiency in respect of food Should the entire United Kingdom requirements, however, have been met by India, the former could not provide a market for more than a small proportion of the latter's total exports

Linseed[1]

(£166,000, £3·16 millions ; Rs 17 lakhs, Rs. 1·53 crores)

The Indian trade in no other preferred commodity has undergone such spectacular ups and downs in recent years as in linseed In 1931 and 1932, the total United Kingdom imports were 338,000 and 362,000 tons respectively (valued

[1] Preference 10 per cent *ad valorem* from 1 January 1933 The preference has been rendered partially ineffective by the operation of the drawback system See Postscript

at £3·2 millions and £3·1 millions), of which India supplied an insignificant part only, 15,000 and 9,000 tons respectively (valued at £166,000 and £96,000), the rest being derived mostly from the Argentine, India's principal competitor. Total imports shrank swiftly to 184,000 tons only in 1934, and recovered strikingly again to 286,000 tons by 1937. *Imports from India rose rapidly from 2 per cent in 1932* to 76 per cent of the total in 1934, contracted quickly again in 1935 to a bare 22 per cent, then as speedily soared to 81 per cent of the total imports in 1936, and stood at 67 per cent in 1937. In 1936 they were valued at £2·9 millions out of total imports of £3·4 millions.

Such enormous vicissitudes in the fortunes of the rival competitors in the United Kingdom market do somewhat obscure the influence of the preference. But there appears a definite tendency, on the whole, for imports from India to increase both absolutely and relatively to other imports.

The swiftness with which India and the Argentine have changed places in the United Kingdom market may be explained to a large extent by reference to the oscillations in agricultural production and the consequent changes in the parity of Indian and Argentine linseed. Such changes alone could account for the wide variations from year to year in the *total* exports of linseed from India: such exports declined precipitously from 260,000 tons in 1930-1 to a bare 72,000 tons in 1932-3, rose in the very next year to 379,000 tons, dropped again by 1935-6 to 165,000 tons, advanced to nearly 300,000 tons in 1936-7, and receded to 226,000 tons in 1937-8.[1] The share of the United Kingdom of widely varying Indian exports went up from 12 per cent in 1931-2 to 47 per cent in 1936-7 and 75 per cent in the last year.

The preference has been largely *effective*: the relative share of

[1] The Indian Trade Commissioner, London, explains in his *Report* for 1932-3 that the highly unfavourable parity for Indian linseed during 1931 and 1932 combined with the fall in the price of oil was responsible for the abnormal fall in Indian exports to the United Kingdom as well as to other countries In 1933 and 1934, the fortuitous coincidence of a widespread failure of linseed harvests in the Argentine and the United States (during the respective previous year) with the grant of preference in the United Kingdom helped India to reinforce her position considerably in that market In 1934, again, there was a good crop in the Argentine and in the following year an influx of Plate linseed ousted the Indian commodity from its position of advantage But in 1935, there was a bad failure of the Argentine crop, and in 1936 Indian linseed forged rapidly ahead.

India in the United Kingdom imports as well as the relative share of the United Kingdom in Indian exports has continually advanced But the extent of its effectiveness is by no means the measure of the gain of trade resulting from it : the counterpart of the distinct increase in exports to the United Kingdom is a definite decline in exports to European continental countries, the United States and other markets. 'The probable explanation of the position may be that the Indian exporters of linseed preferred to send the bulk of their exports to the United Kingdom market, where they could obtain relatively better prices on account of the preference there.'[1] There may thus be an important element of diversion in the increased exports to the United Kingdom. Or alternatively, Indian exports may have suffered by intenser competition in neutral markets from the Argentine product, which having been excluded from the United Kingdom drifted elsewhere.[2]

Paraffin Wax[3]

(£562,000, £1 12 millions ; Rs. 76 lakhs, Rs. 2·32 crores)

Paraffin wax, like rice and teakwood, is no longer an important constituent of India's export trade since the separation of Burma.

The United States and Poland were the important rivals of India in the United Kingdom market. Total United Kingdom imports declined from 1·3 million cwt to 1 million cwt between 1931 and 1933, all due to a reduction in imports from India from 491,000 cwt (valued at £562,000) to 213,000 cwt (valued at £289,000), in turn due to practical elimination of the once very important transit trade in Indian paraffin wax After 1933, total imports remained about the same, imports from India steadily went up to 382,000 cwt. (valued at £364,000) in 1937.

Total Indian exports have remained since 1931-2 at about

[1] *Report* of the Indian Trade Commissioner at Hamburg, 1934-5, p 50

[2] The Indian Trade Commissioner at Hamburg in his *Report* for 1935-6 commenting on the huge decline of French imports of Indian linseed from 46,000 to 6,000 metric tons between 1933 and 1935—when imports from the Argentine increased from 205,000 to 238,000 metric tons—observes that the decline in Indian imports is not due to the operation of the French quota system, 'for the quotas for linseed have been on the generous side' (*Indian Trade Journal*, 3 December 1936) Presumably the decline was due to the inability of the Indian produce to stand its ground in the face of severer Argentine competition

[3] Preference 10 per cent *ad valorem*

a million cwt. Exports to the United Kingdom were 32 per cent in the first year, fell to 18 per cent in 1932-3, and rose again to 36 per cent in the last two years before the separation of Burma: the value of such exports was Rs. 76 lakhs in 1931-2, fell to 37 lakhs in the following year, and had risen by 1935-6 to 82 lakhs again.

Given the British policy of protection and Imperial preference and the consequent decline of transit trade, the preference on Indian exports of paraffin wax appears to have been of distinct advantage.

Woollen Carpets and Rugs[1]

(£396,000, £1·74 millions; Rs. 41 lakhs, Rs. 57 lakhs)

Total United Kingdom imports of woollen carpets and rugs dropped in 1932 by a million sq. yards from 3·6 million to 2·6 million sq. yards (£1·74 millions to £1·16 millions). The drop took place entirely in foreign imports from 2·8 million to 1·5 million sq. yards (£1·32 millions to £0·76 millions). Imports from India increased from 0·8 million to 1·1 million sq. yards, though their value dropped from £0·4 millions to £0·39 millions and their relative share of the total quantity of imports went up from 21 per cent to 42 per cent. By 1935 there had been a further considerable fall in foreign imports to 0·8 million sq. yards valued at £0·63 millions, and an equally marked increase in imports from India to 1·7 million sq. yards or £0·52 millions, forming 65 per cent of the total imports.

In 1936, the quantity of imports from India fell slightly, though their value rose somewhat, foreign imports went up, more appreciably in terms of quantity than of value, and the relative share of India of the quantity of total imports receded to 57 per cent. Total imports had, indeed, remained more or less constant at 2·6 million sq. yards since their first considerable drop in 1932, and only showed a small rise in 1936 to 2·8 million sq. yards: the main changes, already observed above, occurred in the *relative* importance of Empire (or Indian) and other sources of imports.

[1] Preferential rate—free, general rate—10 per cent *ad valorem* from 1 March 1932, 20 per cent from 1 January 1933, 4s 6d and 9d respectively for hand-made or other kinds of carpets and rugs per sq yard, or 20 per cent *ad valorem*, whichever is higher, from 1 January 1935.

Here, if anywhere, the preference would appear to have been of decisive effect. Since between three-fourths and four-fifths of Indian exports are normally consigned to the United Kingdom, the preference has been of definite advantage: the possible loss from intenser competition from foreign supplies in foreign markets could not by any means be as large as the certain gain in the United Kingdom market. Indeed, such offsetting loss hardly appears to have been at all significant: Indian exports to foreign countries almost steadily increased from 1·3 million lb. to 2·8 million lb. between 1931-2 and 1937-8, while exports to the United Kingdom advanced from 3·5 million lb valued at Rs. 41 lakhs to 8·4 million lb. valued at Rs. 76 lakhs. Since the additional exports to the United Kingdom occurred entirely through substitution for former foreign imports and not through a net expansion of the total United Kingdom demand, they may be almost wholly assigned to the operation of the preference.

Oil-seed Cake and Meal[1]

(£0·74 millions, £2·4 millions; Rs. 72 lakhs, Rs. 2·01 crores)

Both the quantity as well as value of United Kingdom imports of Indian oil-cakes nearly doubled between 1931 and 1934, increasing from 126,000 tons to 246,000 tons, and in value from £0·74 millions to £1·34 millions Imports from other sources (mostly foreign) went slightly down from 333,000 tons to 311,000 tons but rather appreciably down in value from £1·67 millions to £1·35 millions The percentage of imports from India had improved in the meantime from 30 to 43 There has been little change in this position since.

Indian exports of oil-cakes to the United Kingdom went up from 104,000 tons valued at Rs 72 lakhs to 224,000 tons valued at Rs 1·32 crores between 1931-2 and 1935-6. They fell slightly in quantity to 214,000 tons but rose further in value to Rs. 1·48 crores in 1936-7. Exports to other countries declined at the same time from 187,000 tons (Rs. 1·29 crores) in the first year to 76,000 tons in 1935-6 (Rs. 50 lakhs), but

[1] Preference 10 per cent *ad valorem*

rose to 122,000 tons (Rs. 79 lakhs) in 1936-7. The relative share of the United Kingdom of the quantity of Indian exports was 36 per cent in 1931-2, 75 per cent in 1935-6 and 64 per cent in 1936-7.

The United Kingdom is obviously providing an alternative outlet for a commodity, the foreign demand for which has suffered drastic contraction during the last few years, owing to the increasing vogue of agricultural protectionism, especially in respect of the home production of vegetable oil-seeds and fodder in Germany, the Netherlands and other countries.[1]

Bran and Pollard and Rice Meal and Dust[2]

(£0·57 millions, £1·47 millions; Rs. 48 lakhs, Rs. 74 lakhs)

Bran and pollard, like oil-cakes, are an important class of feeding stuffs for cattle, and their trade has been subject to much the same conditions. The United Kingdom demand for them expanded remarkably from nearly 400,000 tons (£1·47 millions) in 1931 to over 700,000 tons (£3·07 millions) in 1936. Imports from India increased from about 160,000 to 230,000 tons (£0·57 millions to £0·92 millions). The percentage of such imports receded from 41 to 32.

Total Indian exports were the same in 1934-5 as in 1931-2, 280,000 tons. Exports to the United Kingdom had gone up meanwhile to 250,000 tons from 182,000 tons, their relative share improving to 89 per cent from 65 per cent. In terms of value, exports to the United Kingdom rose from Rs. 48 lakhs to Rs. 84 lakhs in six years; exports to other countries declined from Rs. 26 lakhs to Rs. 12 lakhs. Since India's relative position in the United Kingdom market has suffered a recession, the increased Indian exports to that country would appear to have been due more to a total

[1] See *Report* of the Indian Trade Commissioner at Hamburg, 1933-4, 1934-5, 1935-6 In Germany oil-cakes are under the monopoly control system For changes of monopoly taxes (i.e surcharges added to the monopoly selling price) during the period, see *Board of Trade Journal*, January and August, 1935, 1936.

An incidental reflection may be noted. India suffers a loss of nitrogenous manure in the exports of oil-seeds and oil-cakes. The seed crushed outside India and the oil-cake exported deprive the country of a valuable food for cattle and manuring substance (cf Paper read by Dr Meek on behalf of Dr F. J F Shaw, late Director of the Agricultural Research Institute at Poona, at a meeting of the Indian section of the Royal Society of Arts on 27 June 1935.)

[2] Preference 10 per cent *ad valorem*.

expansion of the United Kingdom demand than to any distinctive advantage from the preference. It is highly probable that in the absence of preference the recession in India's proportion of United Kingdom imports would have been still greater: *prima facie* conditions continue to be favourable for the beneficial operation of this preference.

3. Group III: Individual Commodities

Tea

(£14·73 millions, £29·62 millions; Rs. 16·93 crores, Rs 19·44 crores)

Tea is by far the most important article of export which receives preference under the Ottawa Agreement. Of the total value of all preferred exports to the United Kingdom on an average during 1927-30, namely Rs. 56·5 crores, the exports of tea alone represented Rs. 24·3 crores or 43 per cent. Again, the United Kingdom is by far the most important market for India's tea exports, taking 86 per cent during the pre-depression triennium.

On her part, the United Kingdom derived from the Empire 83 per cent (200,000 tons) and from India 56 per cent (134,000 tons) of her total volume of imports on an average during 1927-9 (239,000 tons). In turn, the United Kingdom's offtake of Empire tea (200,000 tons) formed 74 per cent of the total Empire exports (271,000 tons) during the same period.[1] The commanding position of the Empire in the United Kingdom market as well as the overwhelming importance of that market to the Empire as a whole is thus evident.

The history of the duty on tea goes farther back than 1932.[2] An examination of the earlier trade reveals two important

[1] Imperial Economic Committee *Plantation Crops*, 1936, p. 25.

[2] The duties on tea in operation on and from different dates have been as follows: 1s per lb, 22 September 1915; 8d per lb, 15 May 1922; 4d per lb, 5 May 1924. The preferential rate for imports from the Empire was five-sixths of the full rate from 2 June 1919. The duty as well as the preference was abolished in 1929. By the Finance Act of 1932, a full rate of 4d per lb and a preferential rate of 2d per lb were levied with effect from 20 April, 2d per lb. being the measure of preference. These rates were altered to 6d. per lb and 4d per lb respectively by Customs House Notice No 17, dated 22 April 1936, under a Resolution moved in the House of Commons on 21 April 1936 (*Board of Trade Journal*, 30 April 1936). The duty has since been increased to 8d and 6d per lb respectively.

trends. In the first place, throughout the period of a decade before the present preference came into operation, the Empire as a whole had been steadily retreating from its very strong position in face of the advance of the Netherlands East Indies.[1] Secondly, within the Empire, India had continuously lost ground to Ceylon and the other Empire countries.[2]

The effects of the preference have necessarily been obscured by the simultaneous operation of the International Export Regulation Scheme.[3]

The table on the next page shows the working of the International Tea Agreement since its inception.

[1] See Imperial Economic Committee *Report on Tea*, 1932 Both the retreat of the Empire and the advance of the Indies had been most marked at the time of the reduction (in 1924) and abolition (in 1929) of the preference granted by the Finance Act of 1919 It would appear, indeed, as if every successive weakening of the regulating valve of the duty were followed by a sudden fresh influx of foreign imports

[2] The relative position in the United Kingdom market of the two Empire countries, India and Ceylon, which together play the leading role in the world's tea trade, is shown below

	1924	1927	1929	1931
Percentage of Gross United Kingdom imports from—India	69 2	67 9	66·3	63
Ceylon	30 5	31 7	33	36·2
Percentage of Retained United Kingdom imports from—India	69 4	68 1	66 1	63·2
Ceylon	30 3	31·4	33·1	36 8

Both the sets of figures relating to gross imports and retained imports indicate a continuous and consistent improvement in the relative position of Ceylon and a decline in the relative position of India (1924, 1927 and 1929 have been selected as the basis for comparison, in preference to 1924, 1928 and 1929 used by the Imperial Economic Committee, as they represent the peak years alike for gross imports and retained imports from India, Ceylon and the Netherlands East Indies)

[3] For a full description of the genesis and objects of the Scheme, see *Capital*, Trade and Engineering Supplement, December 1935 The principal features of the regulation scheme are the fixing from time to time, by the International Tea Committee set up by the agreement, of a quota, for each of the three agreeing countries, India, Ceylon and the Netherlands East Indies, which is a certain percentage (85 per cent in 1933-4, 87½ per cent in 1934-5, 82½ per cent in each of the years 1935-6 and 1936-7 and 87½ per cent in 1937-8) of its 'standard export', that is the maximum export reached by that country in any of the three years 1929, 1930 and 1931, the prohibition of the extension of existing planted areas beyond ½ per cent, and the prohibition of the export of tea seed from the countries which are parties to the scheme The internal distribution of the quotas among producers was left to the local authorities The scheme contained a provision for bringing into the Agreement other producing countries, if satisfactory terms could be agreed upon In 1934, the British East African Dependencies undertook to regulate the extension of the area under tea so that it should not exceed 39,340 acres (*Plantation Crops*, p 22)

TABLE XXXII

The Operation of the International Tea Agreement[1]

(million lb)

Exporting country	Standard exports	1933-4 Export quotas at 85% of standard	1933-4 Amounts exported	1934-5 Export quotas at 87½% of standard	1934-5 Amounts exported	1935-6 Export quotas at 82½% of standard	1935-6 Amounts exported	1936-7 Export quotas at 82½% of standard	1936-7 Amounts exported	1937-8 Export quotas at 87½% of standard	1937-8 Amounts exported
India by sea and land	383	325	335	335	340	313	320	313	†311	335	†329
Ceylon	252	214	197	220	220	208	216	208	213	220	217
Netherlands East Indies	174	148	136	152	145	143	147	143	175	152	167
Total	809	687	668	707	705	664	683	664	699	707	713

† Exports by sea only

On the whole, the quotas from each country have been worked to the full or nearly to the full; the relative positions of the regulating countries in the world markets have not changed much

Exports from non-regulating countries have increased. The increase has in some cases been large relatively to the existing volume of exports from each country, but small absolutely.[2]

The export regulation scheme, however, fixes only the maximum quota of exports from each country and does not concern itself with the distribution of that quota among different markets. How has the relative position of the various competitors been affected in their principal market, namely the United Kingdom?

The new duty on foreign tea and the preference on Empire tea came into operation on 20 April 1932, while the international control plan became effective nearly a year later. The year 1932 witnessed an increase in the relative share of the Empire from 82 to 86 per cent and of India from 52 to

[1] *Plantation Crops*, p 23, *International Trade Statistics*, 1937

[2] See *International Trade Statistics*, 1934, 1935, 1936, for exports from the principal non-regulating countries, namely China, Japan, Formosa, Indo-China and British East Africa

TABLE XXXIII

Imports of Tea into the United Kingdom
(million lb)

From	1931	Per cent	1932	Per cent	1933	Per cent	1934	Per cent	1935	Per cent	1936	Per cent	1937	Per cent
Empire	439	*82·1*	487	*86*	432	*85·5*	438	*86·2*	422	*88·7*	428	*89·1*	435	*89·1*
Foreign Countries	96	*17·9*	79	*14*	73	*14·5*	70	*13·8*	54	*11·3*	54	*10·9*	53	*10·9*
Total	535	*100*	566	*100*	505	*100*	508	*100*	476	*100*	482	*100*	488	*100*
India	277	*51·8*	312	*55·1*	289	*57·2*	275	*54·1*	269	*56·5*	267	*55·6*	276	*56·6*

55 per cent. This marked the reversal of a long continued trend to decline in the Empire's and India's proportion of United Kingdom imports.

Since 1932 the total imports have declined and in 1936 were lower by 15 per cent. Some further improvement has taken place in the relative position of India and of the other Empire countries. Foreign countries (mainly the Netherlands East Indies), on the other hand, have lost ground.

The proportion of the quantity of exports consigned to the United Kingdom increased from 85 per cent in 1931-2 to 87 per cent in 1932-3 and 1933-4, and further to 88 per cent in 1934-5 and 1935-6, but receded to 85 per cent again in 1936-7.

What of the possible adverse repercussions of preference in the United Kingdom on the position of Indian tea exports to third countries? It appears that India has not improved her position in any important market. The small trade with Australia has been maintained, but imports into France and New Zealand, which in 1932 were together as large as into Australia, had been reduced by 1936 to a bare one-fifth: the relative share of India declined correspondingly. Indian imports into Canada fell during the period from 26·7 to 22·4 million lb., while total imports were a little above 40 million lb in 1936 as in 1932; imports from Ceylon went up from 10·8 to 13·8 million lb. Imports of Indian tea into the United States fell from 18·1 to 12·3 million lb. while imports from Java nearly doubled, increasing from 9·9 to 18·7 million lb. But for the Export Regulation Scheme, India's position might have suffered a still greater set-back

in these markets. The Scheme has, indeed, been of considerable help to this country by delimiting the intense competition from her enterprising foreign rivals.

In the light of relative trends of the trade of India, Ceylon and the Netherlands East Indies before 1932, the Indian Delegation would appear to have been justified in regarding the position of Indian tea in the London market as vulnerable :[1] the preference was helpful at a difficult time in 1932 and has continued to be of advantage as a bulwark of India's position in her principal market, though this advantage has necessarily been outweighed by the greater advantage of the export control scheme

Ground-nuts[2]

(£0·93 millions, £1·5 millions ; Rs. 1·15 crores, Rs. 10·14 crores)

The following table gives the imports of ground-nuts into the United Kingdom from various sources

It will appear how the Empire's share of imports increased in the very first year of preference from 71 to 89 per cent. By 1934, foreign imports had been completely eliminated.

As regards the division of the gain of trade as between the Empire countries, the share of India has not improved perceptibly, while that of the other Empire countries has gone up remarkably from 13 to 40 per cent

Absolute imports from India, however, largely increased and the value of such imports went up from less than one to about one and a half million pounds sterling between 1931 and 1936. India maintained her proportion of expanding

[1] While the observed trends of the past appear to warrant some concern for the future of Empire and Indian teas, there is little room for alarm 'In so far as world demand since the War has led to the increased production of foreign tea, Empire producers whose product is for the most part of a superior article and at its best the finest in the world, have no ground for complaint, and so long as they maintain the quality and combine to extend the sale of their tea in new and developing markets they should on a long view have little cause for anxiety' —Imperial Economic Committee *Report on Tea*, 1932 Co-operative measures for promoting sales have, indeed, been adopted The International Tea Committee, having organized the machinery to work the International Tea Agreement, set up a Tea Market Expansion Board towards the end of 1934 Formerly, external propaganda was carried out individually and severally by the three important tea producing countries It is now co-ordinated by a central executive into a concerted campaign on behalf of all

[2] Preference 10 per cent *ad valorem*

TABLE XXXIV

Imports of Ground-nuts into the United Kingdom

(1,000 tons)

From	1931	1932	1933	1934	1935	1936	1937*
India . ..	81	58	70	73	90	110	138
Other Empire Countries .	19	28	59	40	62	75	111
All Empire Countries	100	86	129	113	152	185	249
Foreign Countries	39	11	2	0 2	0 1	—	—
Total	139	97	131	113	152	185	249
Percentages							
India .	*58*	*60*	*53*	*64*	*59*	*60*	
Other Empire Countries .	*13*	*29*	*45*	*36*	*41*	*40*	
All Empire Countries	*71*	*89*	*98*	*100*	*100*	*100*	
Foreign Countries .	*29*	*11*	*2*	—	—	—	

* Undecorticated ground-nut imports of 22,000 tons are excluded, their distribution according to source not being available yet

total imports, which were £2·5 millions in the last year against £1·5 millions in the first.

On the side of India, there have been wide variations in the volume of total exports as well as exports to the United Kingdom. Total exports declined heavily from 672,000 tons in 1931-2 (Rs. 10·1 crores) to 443,000 tons in 1932-3 (Rs. 7·2 crores), rose and fell, and rose remarkably again in 1936-7 to 791,000 tons (Rs. 13·1 crores). The share of the United Kingdom decreased from 12 per cent in 1931-2 to 7 per cent of a reduced value of trade in 1932-3, then went up to 25 per cent in 1934-5, and stood at 17 and 18 per cent respectively during the next two years. The value of exports to the United Kingdom increased during the six years from Rs. 1·15 crores to Rs. 2·21 crores.

It does appear, on the whole, that a larger proportion of Indian ground-nut exports have been directed to the United Kingdom as a result of the preference. The preference has also enabled India to supply a major, if constant, proportion of an expanding market.

Much the greatest part of Indian exports, however, has in

the past found its way to the crushing industries of the continental countries, principally France, the Netherlands and Germany[1] A noteworthy fact about this part of the trade is the serious decline during recent years of exports to France, which until 1933-4 was India's principal market in Europe. Now French imports fall into two classes: undecorticated and decorticated. Imports of the former are on the whole expanding, of the latter declining The predominant source of supply for the former, growing imports, is French West Africa, for the latter, shrinking imports, is India and British West Africa Moreover, the comparatively small imports of undecorticated nuts from the latter sources have entirely ceased On the other hand, imports of decorticated nuts from French West Africa started in 1934.

Taxation was imposed in France for the first time on foreign oil-seeds in August 1933 It was increased in September 1934, and again in May 1935 and conferred a big differential advantage on French Colonial imports.[2] The British Ottawa ousted French West Africa from the United Kingdom market in the interests of India and British West Africa The French 'Ottawa' has in turn wreaked signal retribution on Indian and British West African exports by progressive substitution for them of French West African imports. Here, at any rate, the relation between Ottawa preferences and the trend of trade policy in other countries appears to be rather close

In respect of Germany, the main loss to India has resulted from the trend to autarchy, prompted by various motives and promoted by different methods There has, besides, occurred some relative displacement of Indian exports by imports from other countries in 1931, India supplied 402,000 out of

[1] The phenomenon is largely accounted for by a difference between the lines on which the oil crushing industry developed in the United Kingdom and on the continent of Europe In the United Kingdom, the industry was primarily interested in supplying concentrated foods to farmers, while on the Continent the main objective was the development of the edible oil industry, the cake or residue being the by-product Thus in the United Kingdom, the demand at first was primarily for seeds with a low oil content, such as cotton seed, on the Continent for nuts or seeds with a high content such as ground-nuts The positions are now, however, gradually approximating (Imperial Economic Committee *Eighth Report on Functions and Work*, 1927)

[2] The duties on decorticated and undecorticated ground-nuts were about doubled by announcement on 28 May 1935, from 11 4 and 8 3 francs per 100 kilograms respectively to 22 4 and 16 3 francs per 100 kilograms (*Board of Trade Journal*, 6 June 1935)

486,000 tons of the decorticated ground-nut imports into Germany; in 1936, she provided 211,000 of 290,000 tons. Indian exports have thus been made to bear the main brunt of Germany's restrictionist régime.

On the whole, if the reaction on French policy is accounted for, the preference in the United Kingdom conferred no easily recognizable positive benefit on Indian exports. But if the new French policy is now more or less a settled fact, preference in the United Kingdom is necessary to protect the important and steadily growing trade with that country against the certain recession that must otherwise overtake it. It is essential as a safeguard against a fate similar to that which befell French West African exports in the United Kingdom market.

Pig Lead[1]

(£0·64 millions, £3·91 millions; Rs. 1·04 crores, Rs. 1·78 crores)

Pig lead is entirely a product of Burma and does not now appear as an export of India. A study of the facts of trade shows that Indian pig lead has not been able to maintain its ground in the United Kingdom market in the face of strong competition from the efficient and organized industries of Australia and Canada. Imports from these countries have expanded rapidly and continuously, those from India had until 1935 completely failed to respond to the combined stimulus of preference and an enlarged total demand. The percentage of imports from India declined from 16 in 1931 to 13 in 1935, while that of other Empire countries increased between the two years from 50 to 83.

Production too has been expanding in the two Dominions, but has remained small, and for some years stationary, in India.[2] On an average from 1933-4 to 1935-6, 88 per cent of the total Indian output was exported and the principal part of the exports went to the United Kingdom, her relative share being 84, 64 and 62 per cent respectively in the three years.

[1] Preference 10 per cent *ad valorem*

[2] For conditions of production see J Coggin Brown, *India's Mineral Wealth*, 1936, pp 91-5, for figures of production cf *Statistical Year-book of the League of Nations*, 1937-8, p 147.

4. Group IV : Individual Commodities

Tobacco, Unmanufactured

(£305,000, £10·4 millions ; Rs. 39 lakhs, Rs. 81 lakhs)

Empire, including Indian, tobacco has received preference in the United Kingdom market for nearly the last twenty years, and the present rate of preference came into effect as far back as 1 July 1925.[1]

The relative position of India, the Empire and foreign countries in the United Kingdom market is shown below.

Table XXXV

Imports of Tobacco (Unmanufactured) into the United Kingdom

(million lb)

From	1925	1928	1929	1930	1932	1936
India	7·9	10·3	9·3	13	9·2	13·7
Empire Countries	19	43	32	35	48	53
Foreign Countries	170	175	209	202	127	218
Total	189	218	240	237	175	271
India, per cent	*4·1*	*4·7*	*3·8*	*5·5*	*5·4*	*5*
Empire, per cent	*10*	*20*	*13*	*15*	*27*	*20*

Total imports into the United Kingdom were rising steadily till 1929, declined steeply to 1932, and have advanced continuously since, the record level of 1929 being much surpassed in 1936. On the whole, apart from temporary recessions, a continual increase, more marked before the depression than since, has gone on in imports from the Empire countries : their relative share doubled from 10 per cent in 1925 to 20 per cent in 1928. The preference seems to have been an important factor contributing to this increase.[2]

[1] The following rates of duty were put into force on unstripped and stripped tobacco (unmanufactured) respectively with effect from the following dates · unstripped (per lb) between 8s 2d and 9s 0½d , 23 April 1918 , stripped (per lb) between 8s 2½d and 9s 1d , 23 April 1918—preferential rate five-sixths of full rate, 1 September 1919 , three-quarters of full rate, 1 July, 1925 By the Finance Act of the following year the preference was stabilized at the latter figure for ten years from 1 July 1926 By Article 6 of the Ottawa Agreement this period has been extended to 1942—ten years from the date of the agreement.

[2] 'The preference has been of the greatest value to the Empire tobacco industry and has been the principal cause of the steady increase in the consumption of Empire tobacco in the United Kingdom '—*An Economic Survey of the Colonial Empire*, 1932, p. 450

Meanwhile, a striking shift in the composition of United Kingdom consumption of smokable products from pipes to cigarettes with a corresponding change from dark to light tobaccos has been in progress.[1]

Now the expanding imports of light tobacco are derived preponderantly from foreign sources, the shrinking imports of dark tobacco, largely from Empire sources.[2] Again, of the Empire countries Southern Rhodesia and Nyasaland are foremost as producers of light tobacco and they benefited most from an increase in the rates of preference in 1925.

There appears to be a slight tendency over the period as a whole for imports from India as well as the proportion of such imports to increase. There is, similarly, some tendency to increase in the absolute volume as well as the proportion of Indian exports sent to the United Kingdom over a long term of years.[3] The preference has apparently been of some small value.[4]

A comparison of the respective figures of quantity and value shows that exports to the United Kingdom are made up generally of better quality tobacco. Indian production, however, consists mostly of the darker pipe varieties. Although the output of the cigarette types is now increasing, the demand from the growing cigarette industry at home is large enough to absorb the increasing output and there is little exportable surplus left to cater for the changed and changing nature of the United Kingdom demand.

[1] The share of light tobacco in the total United Kingdom consumption increased from 24 per cent in 1907 to 59 per cent in 1924 and 88 per cent in 1935 (Imperial Economic Committee *Ninth Report on Tobacco*, 1928, *United Kingdom Trade Returns*, 1935)

[2] Of the imports of light tobacco in 1937, 202 million lb were imported from foreign countries and only 34 million lb from the Empire, while of dark tobacco, 24 million lb were derived from the Empire against 10 million lb from the non-Empire countries

[3] This proportion was 41 per cent in 1929-30, 44 per cent in 1933-4, and 47 per cent in 1936-7 Total exports showed no definite tendency either towards increase or decrease

[4] It is an error, however, to base conclusions regarding the effects of the preference on an observation of the figures since 1931 only See, for instance, the two Departmental *Reports* on the working of the Scheme of Preferences (*First Report*, 1934, pp 68-9, *Second Report*, 1935, pp 81-2)

Coffee[1]

(£242,000, £4 millions; Rs. 28 lakhs, Rs. 95 lakhs)

The United Kingdom demand is all for mild coffees of the finest quality. Costa Rica among foreign countries and British East Africa among Empire countries are the principal sources of United Kingdom imports of nearly equal importance, against which India, contributing barely 10 per cent of United Kingdom supplies, has to compete.[2]

It is necessary to extend the inquiry into the effects of the preference over a long enough period to discount the influence of an important characteristic of the coffee crop—the extreme variability of its yield from year to year.[3]

In Appendix D are shown the five-yearly moving averages of the relative shares of India, the Empire and foreign countries of the total United Kingdom imports. From there it appears that the Empire has continually gained ground at the expense of foreign countries. In 1929, 1930 and 1935 again, the Empire's proportion of gross imports marked a new record, being 47, 51 and 53 per cent respectively in the three years. The five-yearly moving average increased from 42 per cent during the period 1924-8 to 46 per cent for 1932-6. But Costa Rica, too, maintained her share of gross imports and, indeed, increased it from 36 per cent for 1924-8 to 38 per cent after that Other foreign countries have thus been gradually squeezed out

Within the Empire, until 1933, the continuous and striking, though necessarily somewhat spasmodic advance of British East Africa stood in marked contrast to the widely fluctuating, yet on the whole non-progressive and latterly declining imports from India. After 1933, the trends appear less definite

As regards the effect of the enlarged preference since 1932,

[1] The duties on coffee in the United Kingdom in operation on and from different dates have been £2 2s per cwt, 5 April 1916, £1 8s per cwt, 15 May 1922, 14s per cwt, 5 May 1924 The preferential rate was five-sixths of the full rate from 1 September 1919, the amount of preference thus working out at 2s 4d per cwt This has been increased to 9s 4d from 17 November 1932.

[2] While the great bulk of the tea supplies (other than those of China) is both produced and consumed within the British Empire, the great bulk of the coffee supplies is both produced and consumed outside the Empire

[3] The Imperial Economic Committee in their *Nineteenth Report on Coffee*, 1931, give instances of the 'very wide variations in yield from season to season'

there is no perceptible tendency to increase in the imports from India or the other Empire countries.

On the side of India, too, total exports as well as exports to the United Kingdom show wide variations from year to year. On the whole a slight tendency to decline in the relative share of the United Kingdom is noticeable. Apparently the influence of the preference has been unimportant.[1]

The present specific rate of preference works out on 1936 prices at about 6 per cent *ad valorem*, against the previous rate of less than 1 per cent *ad valorem*. The Committee of the Assembly appointed to examine the first year's working of the Scheme of Preferences recommended that the Government should consider the possibility of securing an increased preference for Indian coffee. The facts of the trade appear to lend support to this recommendation.

Spices[2]

(£119,000, £798,000 ; Rs. 6·5 lakhs, Rs. 87 lakhs)

India's share of the United Kingdom import trade has been small and rapidly dwindling, dropping from 15·5 per cent in 1931 to 3·2 per cent in 1935.[3]

The Indian exports of spices have also been declining steadily throughout the period under review. The decline has been much more severe in exports to the United Kingdom than to other countries, the relative share falling from 5 per cent in 1931-2 to a bare 1 per cent in 1935-6.[4]

Vegetable Non-essential Oils[5]

(£103,000, £2·1 millions ; Rs. 15 lakhs, Rs. 30 lakhs)

The great variety of non-essential vegetable oils enjoying preference on import into the United Kingdom include

[1] India contributes an insignificant proportion of the coffee supplies of Germany and France Indian coffee is used there as a blend to impart flavour to the coarse coffees of America and the demand for it is complementary, and not competitive, to American coffee. The French import quota system does not appear to have worked harshly in the case of this article The very small German imports of Indian coffee in 1931, 31,000 out of 3 13 million cwt , dwindled away to a bare one-fifth in 1936 (6,000 cwt)

[2] Preference 10 per cent *ad valorem*

[3] In 1936, it improved to 6 4 per cent, but the improvement was relative, not absolute

[4] In 1936-7, it recovered to 2 per cent

[5] Preference 10 per cent *ad valorem* from 1 March 1932 , 15 per cent from 1 January 1933.

castor oil, ground-nut oil, coconut oil, linseed oil, rape seed oil and sesamum oil.[1] Of these, castor oil and ground-nut oil are the most important from the point of view alike of total exports from India and of exports to the United Kingdom, though rape, sesamum and coconut oils form a much more important item in home production and consumption.

Certain peculiar features of the trade in this group of commodities make the delicate mechanism of demand, supply and price highly complex in its operation, and obscure the working of the preference.

The vegetable oils, whose constant mutual competition produces closely intermixed effects, are a much wider and vaster group than the one formed by India's exports. They include in the order of importance of their production (by weight) cotton seed oil, ground-nut oil, coconut oil, linseed oil, lard, soya bean oil, olive oil, sunflower seed oil, tallow, palm oil, rape seed oil, palm kernel oil, sesame seed oil and others.[2] All these together constitute the several alternatives for important uses in which India's exports have to compete for employment They have, again, to meet the important competition of animal oils, principally whale oil, which is a substitute material for the manufacture of margarine and soap[3]

There is now no oil for which there are not several alternative uses; equally there are no important uses for which several alternative oils are not available. This fact causes the fluctuations of the supplies of individual commodities to have little effect upon the price and, therefore, the demand for these commodities.

Total exports of vegetable oils from India increased considerably from 1·38 million gallons during the pre-depression triennium 1927-30, to 1·9 million gallons (valued at Rs 30 lakhs) in 1931-2. The relative share of the United Kingdom

[1] A tariff of 10 per cent *ad valorem* was imposed on foreign imports of these articles by the Import Duties Act It was increased to 15 per cent *ad valorem* by the Ottawa Agreements Act, with effect from 17 November 1932

[2] *An Economic Survey of the Colonial Empire*, 1935, p 499

[3] The principal uses of fatty oils are (1) for the manufacture of margarine, (2) for the manufacture of cooking oil and compound lard for edible fat, and for other culinary purposes, (3) for the manufacture of soap, detergents and glycerine, (4) for the manufacture of paint, varnishes and linoleum, (5) as lubricants; and (6) for other industrial purposes, such as the manufacture of candles and lighting oil

advanced remarkably from a quarter to a little over one-half. In 1932-3, total exports advanced further to 2·44 million gallons (Rs. 38 lakhs) and the United Kingdom share went up to 60 per cent. Since then there has been a recession and revival of total exports, accompanied by a more than proportionate decline and recovery in the United Kingdom share, to 34 per cent in 1934-5 and 45 per cent in 1936-7. The preference appears to have effected no decisive shift in the trend of Indian exports.

Castor Oil

United Kingdom imports of castor oil were 4,300 tons in 1936 against 3,300 tons in 1931. The Indian share was respectively 4,100 tons and 2,100 tons. The percentage of imports from India has thus increased between the two years from 64 to 95.

Exports from India increased from a million to a million and a half gallons between 1931-2 and 1936-7. Of these the United Kingdom had 70 per cent and 68 per cent respectively.

Both sets of statistics show a small benefit from the preference in respect of the small trade in this article.

Ground-nut Oil

The small United Kingdom imports of ground-nut oil were reduced by 70 per cent (from 13,200 tons to 3,700 tons) in 1932 as a result of the tariff on the foreign article. There was a spurt to 7,800 tons in 1935, but imports receded to 5,300 tons in 1936.

The share of India jumped from 5 to 95 per cent between 1931 and 1933, then fell violently, and rose steeply again in 1936 to 88 per cent.

The extremely variable character of the demand for this article, due perhaps in a large measure to the fact that it can be substituted for, as well as replaced by, a great variety of other products, is fully reflected in the figures of exports from India. No consistent expansion in the United Kingdom demand is revealed by them.

The preference would appear to have been of some value, but the competition which ground-nut oil has to face comes

from such wide and varied sources that it can hardly safeguard the market for this commodity, unless supplemented by a tariff on all competing substances It was appreciation of this fact of indirect foreign competition that led the Sub-committee of the Imperial Council of Agricultural Research to recommend to the Government of India 'that the Government of the United Kingdom be approached with a proposal to impose an import duty on all foreign fats, oils, and oil-seeds, which compete with oil-seeds produced in the Empire'.[1]

The trade with the United Kingdom in other vegetable oils such as linseed, coconut, rape and sesamum oils, is hardly yet of any importance to deserve notice here.[2]

5. Group V: Individual Commodities

Wheat

(£133,000, £30·4 millions; Rs. 10 lakhs, Rs 15 lakhs)

A preference of 2s. a quarter or about 4d. a maund has been granted on imports of wheat into the United Kingdom from the Empire countries. Until 1935-6, the preference did not prove of any appreciable value. India had hardly an excess of production over her own requirements for internal consumption with a normal crop at the then prevailing level of world prices This level remained depressed below Indian export prices, owing to a state of over-supply in relation to existing demand and a consequent huge accumulation of stocks. Far from there being any exports of Indian wheat,

[1] *Report of the Indian Crop Planning Conference*, Simla, 1934

[2] Indeed the only advantage that has been said to have accrued from the preference on such oils is that of rendering effective the 'protection of *other* vegetable oils' (first Departmental *Report*) Now these 'other oils' are ground-nut and castor oils But castor oil is not in general competition with the bulk of fatty oils, being used mainly as a lubricant and for medicinal purposes So that these '*other oils*' are reduced to only ground-nut oil On the other hand, too, the duty on linseed oil cannot be correctly said to protect imports of Indian ground-nut oil, for the former is principally a drying oil and is not in effective competition with the latter. In fact the development of domestic crushing industries in the United Kingdom was the most important objective, and appears to have been the most important net effect, of the recent tariff adjustments in respect of vegetable oil-seeds and oils They have afforded protection to the United Kingdom finished article (oils) and preference to the Empire-grown raw products (nuts and seeds) · the imports of oils were predominantly from foreign sources and were restricted by the tariff (of 15 per cent), the imports of the raw material were largely derived from Empire sources and were little affected by the tariff (of 10 per cent)

it had to be protected in the home market against foreign imports.

In the last two years, 1936-7 and 1937-8, conditions have been increasingly favourable to export. Large exports, most of them directed to the United Kingdom, have therefore taken place. The amount of exports in 1936-7 was 232,000 tons (Rs. 2·1 crores) of which 210,000 tons (Rs. 1·88 crores) went to the United Kingdom. It rose to 460,000 tons (Rs. 4·62 crores) in 1937-8, the United Kingdom share being 290,000 tons (Rs. 2·91 crores).

The preference which the Indian Delegation regarded largely as of potential value in the case of India, has now become operative. It is difficult, however, to assess the measure of advantage conferred by it, as the other factors at work like conditions of production and demand are so much more important than the preference.

Cotton Manufactures[1]

(£50,000, £8·94 millions; Rs. 17 lakhs, Rs. 4·82 crores)

Exports of Indian cotton manufactures to the United Kingdom, mostly in the category of handkerchiefs and shawls, are a small, specialized and insignificant part of the total trade Exports to Colonial markets, also entitled to preference under terms of the Ottawa Agreement, are considered in a later chapter.[2]

[1] Preferential rate—free, general rate—10 per cent *ad valorem* from 1 March 1932; 20 per cent from 1 January 1933, and from 1 January 1935, the same rate for cotton as for woollen carpets and rugs, etc, and 30 per cent for lace and lace nets of all kinds

[2] See below Chapter IX, 3

Chapter VI

THE EXPORT TRADE AND PREFERENCES: SUMMARY OF EFFECTS

1. Preferred Exports

It is now possible to take a comprehensive view of the Indian export trade in both preferred and non-preferred commodities and to sum up certain conclusions suggested by the survey in the foregoing pages.

Preferred Exports

The following table summarizes the exports of all preferred commodities included in the five groups dealt with above as well as their changing distribution between the United Kingdom and other countries from 1931-2 to 1936-7.

Table XXXVI

Exports of all Preferred Commodities from India

(Rs. crores)

To	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	32 3	28 7	34 8	35 4	35 8	43 6
Other Countries	67 0	56 1	53 7	49 8	54 8	65 9
Total	99 3	84 8	88 5	85 2	90 6	109·5
United Kingdom, per cent	*33*	*34*	*39*	*42*	*40*	*40*
			Indices			
United Kingdom	100	89	108	110	111	135
Other Countries	100	84	80	74	83	98
Total	100	85	89	86	91	110

Total exports of preferred articles declined sharply in 1932-3, oscillated till 1935-6 with a slight upward tendency, and in keeping with the rising general trend of trade revived appreciably in 1936-7 to a level above that of 1931-2 by Rs. 10 crores, or 10 per cent.

Exports to the United Kingdom fell relatively less than exports to other countries in 1932-3, went up considerably in the very next year, maintained a slight but steady upward trend in the two years following, and experienced a marked revival again in 1936-7. In that year they were higher than in 1931-2 by over Rs. 11 crores or 35 per cent.

Exports of preferred articles to other countries continued their uninterrupted decline till 1934-5, when they were down by about one quarter. After that they increased, rather rapidly, and in 1936-7 nearly attained the level of 1931-2, being actually less by about Rs. 1 crore.

The proportion of preferred exports taken by the United Kingdom increased from 33 per cent in 1931-2 to 42 per cent in 1934-5. It receded to 40 per cent in 1935-6 and 1936-7.

The following table shows the distribution of the United Kingdom import trade in commodities on which preference is accorded to India.

TABLE XXXVII

United Kingdom Imports of Articles on which Preference is Granted to India[1]

(£ millions)

From	1931	1932	1933	1934	1935	1936
India	26·6	24·2	27	28·6	28·3	34·1
Other Empire Countries	17·7	17·5	16·6	18·2	17·8	19
All Empire Countries	44·3	41·7	43·6	46·8	46·1	53·1
Foreign Countries	31·9	24·5	20·9	27·6	27·9	28·8
Total	76·2	66·2	64·5	74·4	74	81·9
			Percentages			
India	35	36·6	41·9	38·4	38·4	41·7
Other Empire Countries	23·1	26·4	25·7	24·6	23·9	23·2
All Empire Countries	58·1	63	67·6	63	62·3	64·9
Foreign Countries	41·9	37	32·4	37	37·7	35·1
Total	100	100	100	100	100	100

[1] The figures are the total of the four groups into which the preferred exports of India have been divided The fifth group is excluded, because, until 1935-6, only one-half per cent of the imports of articles in it were derived from India, its inclusion would vitiate the aggregate results in respect of other groups

Over the period as a whole, from 1931 to 1936, the proportion of articles on which preference is extended to India, derived from India, increased from 35 to 42 per cent, that from foreign countries decreased correspondingly from 42 to 35 per cent, and from the other Empire countries was the same—23 per cent—in both years. Within the period, important oscillations had occurred in these relative shares. By 1933, the percentage of imports from the other Empire countries as well as India had distinctly improved, *pari passu*, the proportion of foreign imports had steeply declined. From 1933 to 1935, the relative share of India as well as other Empire countries steadily but visibly receded, that of foreign countries underwent a marked improvement. In the last year, there was a sharp rise in India's share to the level of 1933, a small decline in the share of other Empire countries to the level of 1931, and an appreciable fall in the share of foreign countries.

In absolute terms, comparing 1936 with 1931, India had gained an addition of trade to the extent of £7½ millions, the other Empire countries by a little over £1 million, the Empire as a whole by £9 millions, while the foreign countries had lost custom by over £3 millions. While these results appear more favourable to Indian exports in 1936, their general nature was the same in other years after the grant of preference. Thus in 1935 against 1931, United Kingdom imports from India had increased by £1¾ millions, from other Empire countries had remained about the same and from foreign countries had gone down by £4 millions

India's share of the United Kingdom market for preferred imports thus increased alike as compared with the other Empire countries and foreign countries The increase has been marked in certain years since the grant of preference and moderate in others . in all the years, however, it has been unmistakably evident

The trends in the direction of trade in regard to various groups of commodities may here be briefly summarized.

The largest increase of exports to the United Kingdom took place in the second group,[1] from Rs. 2·8 crores in 1931-2 to 4·7 crores in 1935-6 and 7·3 crores in 1936-7 ; precisely of this

[1] Rice, linseed, paraffin wax, woollen carpets and rugs, bran and pollard and rice meal and dust, oil-seed cake and meal

group the exports to non-British markets suffered the heaviest decline, from about 22 crores to 14 crores in 1935-6 (14⅝ crores in 1936-7): the percentage of exports to the United Kingdom went up from 12 to 34. As has been already mentioned and will be explained presently, a relation of cause and effect does not obtain between these two directly contrary trends: the decline in exports to other countries occurred largely for reasons independent of Ottawa, though preference in the United Kingdom was sometimes responsible for such reduction through a diversion of supplies to that country, e.g. in the case of linseed. On the side of the United Kingdom, too, there was an increase in Indian imports of this group from £2·6 millions in 1931 to £4·1 millions in 1935 and £6·5 millions in 1936; other imports in the meantime declined from £8·2 millions to £5·5 millions; the relative share of India improved from 24 per cent to 54 per cent. The increase was preponderantly due to linseed, imports of which were also abnormally low in 1931. For the rest, it was fairly generally spread over other items in the group excepting paraffin wax, which went down for special reasons.[1]

There was a small increase of a little over 1½ crores in the total exports of articles in the first group,[2] from Rs. 33¾ crores to 35⅛ crores between 1931-2 and 1935-6. Exports to the United Kingdom went up by half a crore from 8·8 to 9·3 crores. The United Kingdom share was 26 per cent in both years. In 1936-7, the total exports increased by a little over 6 crores of which nearly 2½ crores went to the United Kingdom, whose relative share advanced as a result to 28 per cent. India's position in respect of these commodities is strong in the United Kingdom as well as in the other markets of the world: this fact at once limited the possible value of the preference in the United Kingdom and the liability to loss in other markets. The United Kingdom imports of Indian commodities in this group were £6·6 millions in 1935 against £6·8 millions in 1931; other imports declined meanwhile from £2·6 millions to £0·9 millions; the proportion of Indian imports went up in consequence from less than 73 per cent to over 88 per cent.

[1] See above Chapter V, 2

[2] Jute manufactures, tanned hides and skins, coir yarn and mats and matting, teakwood, castor seed and raw goatskins

In 1936, the imports took a leap by £3 millions, most of them (£2·8 millions) being derived from India. The increase occurred mainly in jute manufactures and tanned hides and skins, but also extended to teakwood and raw goatskins. The preference enabled India to participate in a larger measure than she could otherwise have done in the great expansion of the United Kingdom market in 1936.

Exports to the United Kingdom of articles in the third group[1] also increased from Rs. $19\frac{1}{8}$ crores in 1931-2 to $20\frac{1}{8}$ crores in 1935-6 and $21\frac{1}{8}$ crores in 1936-7. Exports to other countries declined from $12\frac{1}{4}$ crores to 7 crores in 1934-5, but recovered remarkably to $14\frac{1}{3}$ crores in 1936-7 The relative share of the United Kingdom was 60 per cent in the last year against 61 per cent in the first, but had been as high as 75 per cent in 1934-5. The United Kingdom on her side derived in 1931 less than 47 per cent of her imports from India (£$16\frac{1}{3}$ millions out of £35 millions). This proportion rose to 52 per cent in 1933 and fell again to a little over 48 per cent in 1936 (£17 millions out of £35 millions); the other Empire countries improved their share from 37 to 43 per cent over the five years; the proportion contributed by foreign countries contracted meanwhile from 16 per cent to 9 per cent. The small increase in imports from India was mostly accounted for by ground-nuts but partly also by pig lead As such it was due more to expansion of total demand than to preference. Serious loss to Indian ground-nut exports to foreign countries, in particular France, was an indirect result of Ottawa.

The fourth group[2] is a small one. A slight absolute as well as relative increase of exports to the United Kingdom took place, from 1·04 crores or 24 per cent in 1931-2 to 1·2 crores or 27 per cent in 1936-7. The United Kingdom increased her imports of Indian commodities in the group from £0·9 millions to £1·3 millions, and her total imports from £21 millions to £24 millions The Indian imports of all the commodities in the group increased more or less appreciably, in a relative sense; of spices alone suffered catastrophic extinction

[1] Tea, ground-nuts and pig lead.

[2] Tobacco unmanufactured and manufactured, coffee, spices, pulses and beans, vegetable oils and bones and manures

The main items in the fifth group are wheat and cotton yarn and manufactures [1] Total Indian exports in this group fell from Rs 5⅜ crores to 3¼ crores by 1935-6, all on account of the decline in cotton manufactures They rose to 6⅛ crores in 1936-7, due largely to emergence of wheat exports (to the extent of 2 crores) and partly to an increase of cotton manufactures (by 1 crore). Ninety per cent of the exports of wheat being consigned to the United Kingdom, the proportion of total exports of all commodities in the group taken by that country naturally increased to 36 per cent in 1936-7 from 9 per cent in 1931-2.

2. Non-Preferred and Preferred Exports

The relative movements of non-preferred and preferred exports and their distribution between the United Kingdom and other countries may now be examined

First as regards non-preferred exports: after a drop in 1932-3, more marked in the case of those to the United Kingdom than to other countries, the exports made a quick, consistent and remarkable advance, much more in the case of the United Kingdom than of other countries. By 1936-7, exports of non-preferred articles to the United Kingdom had nearly doubled since 1931-2 (and had increased to two and a half times their amount in 1932-3); exports to other countries had gone up by nearly half of their value in the first year; total non-preferred exports were up by more than half

A reference to the indices of total exports of all articles and of preferred and non-preferred articles will show that there was a decline of 15 per cent in the value of Indian export trade in 1932-3, which affected non-preferred exports rather more than preferred exports. From 1932-3 both classes of exports began to expand, but at very different rates Till 1935-6 the expansion of preferred exports was small and irregular—7 per cent—that of non-preferred exports, on the other hand, was continuous and considerable—47 per cent. In 1936-7 both preferred and non-preferred exports made rapid recovery, the latter again more than the former

[1] Other commodities included in the group are barley, magnesite, granite sets and kerbs, other hardwoods and sandalwood oil

TABLE XXXVIII

Exports of Non-Preferred and Preferred Articles to the United Kingdom and other Countries

To	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
	Non-Preferred Articles (Rs crores)					
United Kingdom	10 6	8 1	12 4	12 5	14 7	20 1
Other Countries	46	39 3	46 4	53 9	55 2	67 3
Total	56 6	47 4	58 8	66 4	69 9	87 4
United Kingdom, per cent	*18*	*17*	*21*	*19*	*21*	*23*
	Non-Preferred Articles Indices					
United Kingdom	100	76	117	118	139	190
Other Countries	100	85	99	117	120	146
Total	100	84	102	117	123	154
	Preferred Articles Indices					
United Kingdom	100	89	108	110	111	135
Other Countries	100	84	80	74	83	98
Total	100	85	89	86	91	110
	All Articles Indices					
United Kingdom	100	86	110	112	118	148
Other Countries	100	84	89	92	97	117
Total	100	85	94	97	103	126
	Non-Preferred Articles Percentage of total exports					
	36 3	35 9	39 9	43 9	43 5	44 5
	Exports to the United Kingdom Percentage of total exports					
	27 5	27 8	32 0	31 6	31 5	32 3

A comparison of the indices of preferred and non-preferred exports to the United Kingdom and other countries respectively brings out the operation of two broad tendencies in the character and distribution of India's export trade during the duration of the Ottawa Agreement (1) The tendency to a relatively greater expansion since 1932-3 of non-preferred than of preferred exports appears *both* in the case of the United Kingdom *and* of other countries (2) The tendency to a relatively greater increase of exports to the United Kingdom than to other countries is apparent *both* in the case of preferred *and* of non-preferred articles. The first tendency is more pronounced than the second. This is evident from the fact that the percentage of non-preferred exports of all exports increased from 36 to 45 between 1932-3 and 1936-7, while the

percentage of exports to the United Kingdom of total exports increased in the meantime from 27·8 to 32·3.

The second tendency though less marked was, nevertheless, important and significant: the proportion of non-preferred, no less than of preferred exports to the United Kingdom increased during the period of operation of the preferences from 18 per cent to 23 per cent. (Of preferred exports, as already observed, the percentage of exports to the United Kingdom was 40 in 1936-7 and 42 in 1934-5 against 33 in 1931-2.) The tendency to increased reliance on the United Kingdom market is thus seen to have been uniformly characteristic of all exports, non-preferred as well as preferred.

As a result of these two tendencies, one more important than the other, the order according to the extent of increase between 1931-2 and 1936-7 of the four broad currents of exports has been: non-preferred exports to the United Kingdom (90 per cent); non-preferred exports to other countries (46 per cent); preferred exports to the United Kingdom (35 per cent); preferred exports to other countries (—2 per cent); the first showed the largest increase, the last, an actual small decline.

What, in the first place, accounts for the pronounced tendency towards the relatively greater expansion of non-preferred than of preferred exports, both in the case of the United Kingdom and of other countries?

It may be stated at once that the disparate movements of exports of preferred and non-preferred articles are not a result of preference. Their explanation is to be found mainly in the difference in the character of their commodity composition. The preferred articles consist, for the most part, of food and feeding stuffs for cattle such as tea, coffee, tobacco, spices, rice and other cereals and pulses, fodder (oil-cakes and rice meal) and oil-seeds; and of manufactured articles like coir, jute and cotton manufactures, woollen carpets and rugs, tanned hides and skins and paraffin wax—commodities of which the share of world trade has declined relatively to raw materials in recent years. The non-preferred exports, on the other hand, are heavily weighted by textile fibres such as cotton, jute, wool and hemp, and non-ferrous metals (raw materials of the steel industry). Exports of the latter experienced a

marked revival under the stimulus of swift recovery in the heavy industries; and of the former (excepting wool) went up strikingly as a result of higher prices brought about by reduced output and increased demand [1]

Appendix E gives the changes in the exports of important non-preferred articles to the United Kingdom and other countries.

3. Reasons for the Relative Decline of Exports to Non-British Markets

What, again, are the reasons for the second broad tendency noticed above—the relatively greater expansion of Indian exports, preferred and non-preferred alike, to the United Kingdom than to other countries?

The general causes which explain the increasing relative share of the United Kingdom of Indian export trade have been dealt with earlier [2] They indicate why exports to the United Kingdom, of non-preferred as well as preferred goods, have been relatively stimulated, or why such exports to other countries have remained relatively depressed. They may now be briefly restated, and a few of them may be stated more fully in the light of the analysis of preferred exports made above, and of the direction of Indian trade as a whole made below.

Adverse Effects of Preferences

The nature of the adverse effects of the preferences in the United Kingdom on India's trade with foreign countries has been described at the beginning of an examination of the working of the preferences.[3] Only two instances may be recapitulated to illustrate the more obvious mode of their action. Firstly, it has been seen how the supplies of Indian linseed were diverted from the continental markets to the United Kingdom by the attraction of the preference.[4] Again, of a second aspect of this phenomenon—intenser competition

[1] On the whole, then, it appears that non-preferred exports contributed far more than preferred exports to the expansion of Indian export trade until 1936-7 Recovery in the demand for and prices of raw materials was the main operative factor

[2] See above Chapters II, 4 and III, 2

[3] See above Chapter IV, 1

[4] See above Chapter V, 2.

in other markets—ground-nuts furnish a striking instance in point: the exclusion of French West African supplies from the United Kingdom directed them in a much larger measure than before to the market of their home country, where they increasingly displaced Indian ground-nuts, which had always found their principal market in France.[1]

Besides, certain developments in commercial policy harmful to India's export trade may have been actually furthered by the agreements concluded at Ottawa among the members of an Empire with the most widespread and ramifying trade connexions. For one thing, the principle of close trade relations between France and her Colonies, which had long been an essential part of French Colonial policy, received support from the example of Ottawa. The French 'Ottawa' in the form of the Colonial Economic Conference in May 1933, and December 1934, reinforced the already strong tendency to economic co-ordination between the home country and the Colonies, and thus hit the trade of the former suppliers of France, including India. Again, Ottawa, however justified it might otherwise have been in the facts of the situation, was the signal for a general movement towards higher and intenser protection all over the world, and did vast damage to the cause of economic internationalism. In this way it indirectly contributed to the decline of Indian exports to countries other than the United Kingdom.

Self-sufficiency

The trend to autarchy, generally more pronounced on the continent of Europe than elsewhere, has been observed to be more marked in food and feeding stuffs than in raw materials Imports of raw materials, too, notably oil-cakes, oil-seeds and vegetable oils into many countries have been replaced with varying degrees of success by home-grown fodder and dairy produce and animal fats. Imports of other raw materials like cotton, hemp and wool, and rubber and petrol may be substituted to a greater or smaller extent according to the results of projected schemes in countries like Germany. But on the whole, so far, attempts at attaining self-sufficiency in raw materials have been attended with much less success than

[1] See above Chapter V, 3.

similar efforts in respect of foodstuffs. In any case, a natural and necessary result of such attempts has been to depress the level of Indian exports to countries other than the United Kingdom.

Bilateralism

In the case of raw materials,[1] it is the new grouping of economic and commercial relations among states brought about by the institution on a large scale of bilateral clearance and compensation agreements that has placed India at a disadvantage against her rivals. Bilateralism, indeed, next to the depression, has been the most important factor responsible, first, for the great contraction and, later, the slow expansion of Indian exports to countries other than the United Kingdom.

4 Bilateralism and Indian Trade

An examination is, then, necessary of the incidence of bilateralism on the trade of India, and of the more important causes of this general trend, including the bearing, if any, of a general scheme of Imperial preference in that direction.

An outstanding feature of the direction of India's trade until 1931-2 was that her imports from the United Kingdom greatly exceeded her exports to that country. On the other hand, she had a favourable balance of trade with most other countries. To the United Kingdom, however, she had to make large annual payments on account of interest on her overseas debt, profits and commissions of industrial, commercial and financial concerns, salaries, allowances and pensions, etc.; but 'the export surplus required for these payments was not obtained in trade with that country, but with other consumers of Indian products in all continents'.[2]

This triangular character of trade has undergone radical changes during recent years When the considerable shrinkage in the net balance of trade and its subsequent revival has been allowed for,[3] the outstanding change in the direction of India's trade is found to have occurred in respect of the

[1] Most of the important raw materials belong to the non-preferred class

[2] *Review of World Trade*, 1935, p 63

[3] India's export surplus was Rs 79 crores in 1929-30, had nearly vanished by 1932-3, when it was 3 crores, and revived to 77 crores again in 1936-7

United Kingdom. With remarkable swiftness India's heavy negative balance of trade with that country, 34 crores in 1929-30, disappeared and turned into an even balance by 1931-2. The result was brought about by a much greater contraction of imports from, than of exports to, that country. The negative balance reappeared in 1932-3, and to a smaller extent in 1934-5, but was repressed each time, and followed in 1933-4 and 1935-6 by an equation of exports and imports. In 1936-7, the unprecedented phenomenon was witnessed in the history of Indo-British trade of an export surplus of Rs. 18 crores in favour of India.

This marked improvement in the position of India's balance with the United Kingdom was, however, only the reflex and counterpart of the almost permanent deterioration of the balance of trade with Europe and other British and foreign countries (excepting Japan).

These changes are the most striking illustration of the tendency to bilateralism in visible as well as invisible items in respect of Indian trade · for the first time in the long record of modern trade relations between the United Kingdom and India, the net invisible imports from the former were directly paid for to an important extent by net visible exports to that country.

Triangular Trade, Balance of Trade and Bilateral Trade

As a consequence, an important change has occurred in the distribution of the total Indian trade between triangular trade (in the strict sense) and balance of trade (which together constitute triangular trade in the wider sense) and bilateral trade. Triangular trade (in the strict sense in which it is meant to be understood below) is the merchandise trade in one direction which is settled by merchandise trade not in the reverse direction but in *another* direction ; bilateral trade is reciprocally balanced merchandise trade ; and the balance of trade is the excess of merchandise exports over imports or *vice versa* which is settled not by commodity trade but by invisibles For illustrating these broad divisions of total trade, the Indian trade figures for 1935-6 may be taken. The total trade of India in that year was valued at Rs. 298·7 crores, Rs 134·4 crores of imports, Rs. 164·3 crores of exports. Of

this, 90 per cent, or Rs 272·6 crores, of trade made up of Rs 124·4 crores of imports and Rs. 148·2 crores of exports, is analysed in the *Review of the Trade of India* according to countries of origin and destination of imports and exports. The excess of exports over imports of this analysed volume of trade or the balance of trade was Rs. 23·8 crores. The sum of the export balances with all countries with which export balances obtained was Rs. 34·9 crores; the sum of import balances with all the remaining countries was Rs 11·2 crores. The total trade of Rs. 272·6 crores was thus divided into (1) triangular trade amounting to Rs. 22·4 crores (the import balances of 11·2 crores plus an equal amount of export balances against which they could be debited); (2) balance of trade (or trade settled by recourse to invisible transactions), 23·8 crores; and (3) bilateral trade reciprocally balanced, amounting to 226·4 crores, the sum of total exports less export balances and total imports less import balances. The following table brings out important changes in the distribution of total Indian trade on the above lines and therefore in the nature of trade relations with important trading countries

TABLE XXXIX

Percentage Distribution of Indian Trade between Triangular Trade, Balance of Trade and Bilateral Trade

	Triangular Trade	Balance of Trade	Bilateral Trade
1929-30	22	9	69
1932-3	22	—	78
1934-5	12	7	81
1935-6	8	9	83
1936-7	0·6	22	78

It will be seen that from 1929-30 to 1932-3 bilateral trade increased from 69 to 78 per cent, all at the expense of the balance of trade, which fell from 9 per cent to nothing; triangular trade represented the same proportion of total trade in both years From 1932-3 to 1935-6, the proportions both of bilateral trade and of the balance of trade were increasing, necessarily at the cost of triangular trade, which shrank considerably from 22 to only 8 per cent. In 1936-7, triangular trade practically vanished, the balance of trade swelled instead,

partly at the expense of bilateral trade as well. If the balance of trade settled by invisibles were also to be split up into bilateral and triangular trade, it would be found that in 1936-7 a substantial part (at least 25 per cent, but probably more) represented bilateral settlement of claims. So that bilateral trade in the wider and perhaps more proper sense, in fact increased, or did not decrease, in 1936-7.

Such far-reaching changes call for explanation as well as inquiry regarding the extent to which modification in the fiscal system of the Empire might be responsible for them.

5. Bilateralism : Motives and Effects : British Protectionism and Imperial Preference

It has been mentioned above how bilateral trade treaties are multiplying in number, variety and complexity as a result of the tendency to planned and regulated trade specially stimulated by the strain of the recent crisis and most prominent in the case of European and South American countries.[1] These treaties have naturally tended to encourage bilateral, at the expense of multilateral trade : of twenty-two countries representing over 70 per cent of world trade the proportion of triangular merchandise trade declined appreciably from 18·4 per cent in 1929 to 13·8 per cent in 1935 ; a steady and significant increase also occurred in the proportion of bilateral merchandise trade from 68·1 per cent in 1931 to 74·2 per cent in 1935.[2] The delicate mechanism of the automatic balancing of claims and obligations with individual countries through the operation of many-cornered clearing has worked with only partial success. More and more, there has been a tendency towards equalizing merchandise transactions with individual countries through quotas and clearing arrangements

Clearing agreements by artificially stimulating trade between the contracting parties often have adverse effects on the trade with third countries.

[1] See above Chapter III, 2, 3 , also Chapter I, 1

[2] *Review of World Trade*, 1935, p 65 The same review for 1937 further adduces evidence of the continuance of the trend to bilateralism (see p 66f)

Thus, for example, debtor clearing countries in Europe had been largely dependent upon overseas countries for their supply of raw materials. Clearing agreements have rendered their supply of free currency scarce, and led to a reduction in their purchases of overseas raw materials, diverting demand to countries with which agreements have been concluded.[1] As a result 'overseas countries which used to supply raw materials to Germany and the other countries of Central and Eastern Europe have undoubtedly suffered serious losses, owing to the shrinkage in their trade with those countries'.[2] India as one of the important overseas suppliers of raw materials to European countries has naturally been adversely hit by these developments, which have in effect, though not in intention, discriminated against her and others similarly placed

British Protection and Imperial Preference and Bilateralism

The adoption by the United Kingdom of protection and Imperial preference itself marked an important step in the direction of bilateralism. It has been seen above[3] that inter-Imperial trade rose suddenly from 25·7 per cent of the total Empire trade in 1931 to 29·1 per cent in 1932, the first year of the incomplete operation of the Import Duties Act, and steadily advanced since to 31 per cent in 1936. 'The principal result of Ottawa has been to direct a certain small proportion of the Empire's overseas trade from foreign to inter-Imperial channels'[4]

By the introduction of tariff protection in 1932, the United Kingdom market was to a large extent closed to the manufactured products of Germany, the United States and the smaller industrial countries of Europe And, 'with the reduction in the British imports of manufactured articles the amount of foreign currency available to the United States and the European industrialized countries for the purchase of primary products in undeveloped countries has been reduced and the prices of such products as well as the quantities

[1] League of Nations *Inquiry into Clearing Agreements*, 1935, p. 49
[2] cf *Review of World Trade*, 1935, pp. 37-8
[3] See Chapter II, 3
[4] *Economist*, 19 October 1935.

entering into trade have been maintained at a lower level than would otherwise have been the case'.[1]

Indeed, the United Kingdom had long been the centre of a vastly important system of triangular clearing of balances, embracing within its extensive scope the agricultural and industrial countries alike. That system had been based on huge exports of long term capital from the United Kingdom mostly to the overseas agricultural countries. The income from such investments had been realized very largely in the form of excess imports into the United Kingdom from industrial countries, which in turn had an excess of imports from the agricultural countries.[2] The overseas agricultural countries depended for their power to transfer the debt service payments to the United Kingdom on exports of primary products to industrial countries. These in turn depended for their power to receive imports of overseas primary products on exports of manufactured goods to the United Kingdom. British protectionism has dealt a blow to this indirect and delicate process of adjustment: the proportion of the United Kingdom import surplus in the trade with highly developed industrial countries dropped from two-thirds in 1930 to two-fifths in 1934. 'This involved a partial elimination of the triangular trade movements responsible for the transfer of payments due to the United Kingdom.'[3]

6. The Net Effect of the Ottawa Agreement on Indian Export Trade

But have we not carried the discussion of practical policy on to a somewhat abstract plane? It may be allowed that India would probably have stood better without British protectionism, without the whole system of Empire preferences, and their train of direct and indirect consequences. But the practical question still remains to be answered: given the change in British policy, the adoption by her of protection and an

[1] League of Nations *Balance of Payments*, 1934, p 18.

[2] Thus of the outstanding British investments in 1930 amounting to £3,750 millions, probably only some 10 per cent were made in the United States and highly developed European countries On the other hand, two-thirds of the import surplus of the United Kingdom in the same year resulted from her trade with these countries.

[3] League of Nations: *Balance of Payments*, 1934, p 19.

extensive system of Empire preferences, has India's export trade fared better with the Ottawa Agreement than it would have done without?

A crude guess may perhaps be hazarded about the extent of increase in trade, if any, that might have resulted from the Ottawa preferences, if only to illustrate the order of magnitude involved, and the manner of its approximate computation. United Kingdom imports from India were £26·6 millions in 1931 out of a total of £76·2 millions, or 35 per cent, and £34·2 millions in 1936 out of a total of £82 millions or 41·7 per cent. If the proportion of Indian imports had not increased between the two years, the value of Indian imports would have been £29·8 millions in 1936. The increase in imports from £26·6 millions to £29·8 millions may then be taken to be accounted for by general recovery in United Kingdom demand. The further increase from £29·8 millions to £34·2 millions represents the relative increase of imports from India, generally through displacement of foreign imports. But this, too, resulted from the simultaneous operation of several factors, many of them tending in the same direction. Among these trade diverting influences, however, the tariff preferences were the most important. Currency alignment between the United Kingdom and India was probably of less importance in later than earlier years. British protectionism, the most important trade diverting factor, besides the preferences, is of significance when the relative share of the Empire countries of the *total* United Kingdom import trade is considered In respect purely of preferred as distinct from protected goods, it does not enter the picture. The other factors, then, are such changes in supply and demand as, apart from the existence of preference, would have led to a *relative* increase in imports from India. In the detailed analysis of the export trade in preferred commodities an attempt has been made roughly to indicate the importance of these changes in each case relatively to preference. Taking a collective view now of the detailed results in regard to individual commodities, it would appear that the combined effect of these changes in causing a *relative* increase in India's share could not be more than the effect of the preferences alone. Half of the total relative increase of £4·4 millions may then fairly be assumed to be the least

measure of replacement of foreign by Indian imports due purely to the action of preferences. But against this estimated gain of £2·2 millions in the United Kingdom market as a result of tariff preferences has to be set such estimated loss in other markets through a directly contrary process, the replacement of Indian by foreign imports, as might fairly be said to be due to the preferences in the United Kingdom on Indian goods (and not to the general adoption by the United Kingdom of the policy of protection and Imperial preference, or other factors). In view of the generally unsatisfactory working of the competitive mechanism in recent years, this loss could not have been equal to the gain in the United Kingdom. It may not be far wrong to put this loss at half the additional market secured in the United Kingdom as a result of tariff preferences.[1] On this basis, the *net* addition to trade as a result of the operation of the Ottawa preferences comes to £1·1 millions or one and a half crores of rupees.

But perhaps this underestimates the degree to which India's export trade has stood better with the Ottawa Agreement than it would have done without. The assumption is implicit in the above method of arriving at the net results to trade of the Ottawa preferences that in their absence the *status quo* before the grant of preferences would obtain. Now the absence of the Agreement would have meant not only the non-existence of a position of privilege for Indian exports against similar exports of foreign countries in the United Kingdom, but the existence, in addition, of a positive handicap on Indian exports in competition with exports from other Empire countries. In the event of the absence of the present Agreement with the United Kingdom, therefore, not only would this *net* addition of trade have been lost to India, but, over and above this, a further loss would have been inflicted on Indian

[1] The most easily recognizable form in which this loss occurs is diversion of Indian exports from other markets to the United Kingdom in cases where no substantial measures are taken to restrict their entry into these markets The most decisive indications of this loss are afforded in the case of linseed, which has been sufficiently dealt with above, and tea, where diversion is suggested by the nature of control exercised by the Export Regulation Scheme The case of ground-nuts is not pertinent, as the restrictive French policy was a result of the Imperial preference policy of the United Kingdom in general, and not of the Indo-British Agreement in particular Losses in respect of rice, oil-cakes, bran and pollard and the like were mostly the result of agricultural protectionism

exports to the United Kingdom as a result of unequal and privileged competition from the other Empire countries.[1] At a rough reckoning this may be put at Rs 50 lakhs.[2] The total positive difference to Indian exports made by the operation of the United Kingdom-India Agreement concluded at Ottawa, in 1936, was therefore approximately Rs 2 crores. This is on the whole a cautious guess and errs in all likelihood on the low side[3]

These results pertain strictly to 1936, a year of phenomenal recovery in trade A similar analysis for an earlier year, say, 1935 or 1934, would reveal a smaller actual *net* gain of trade specifically assignable to the preferences in the United Kingdom but a relatively larger potential gain or avoidance of loss in the United Kingdom markets. In any case, the positive difference referred to above as the sum of the actual and potential gain would not be materially different.

It would be correct to maintain, then, that through the greater part of its period of operation, namely before 1936, the real net addition to trade caused by the Ottawa preferences was of modest magnitude. In spite of much criticism of the suggested insurance value of the Agreement, therefore—and part of that criticism is justified—the Ottawa Agreement between the United Kingdom and India served through the major part of its duration primarily as a measure of insurance against potential losses in the Empire markets For that, indeed, it was mainly designed. No spectacular gains in export trade were expected to follow from its conclusion at a time of general economic dislocation, decline in trade and restrictive national policies In 1936, however, with the general increase of trade, large positive results were attained with a stronger relative position in the United Kingdom won with the aid

[1] Whatever might be said about the under-estimation by the Indian Delegation of India's bargaining power against the United Kingdom, as things are, this highly probable incidental result of failure to conclude an agreement with the United Kingdom has necessarily to be taken into account in any proper estimate of the net results to trade of the actual conclusion of the United Kingdom-India agreement

[2] This potential loss would have been serious in ground-nuts, pig lead, wheat (in 1936) and articles in the fourth group generally

[3] For one thing it excludes any *net* addition or avoidance of loss in the Empire markets other than the United Kingdom This is likely to be a substantial item, but the scope of this work has been confined for the most part to a consideration of trade only between the United Kingdom and India (Exports of cotton manufactures to Colonial markets have been examined in a later chapter)

of the preferences in the years of depressed trade, Indian exports got a larger share of an expanding market. In the days of freer trade this gain might well have been completely offset by losses in other important markets caused directly or indirectly by the working of the preferences: with the efficacy of open competition considerably impaired, the definite gain was certainly larger than the strictly incidental (or avoidable) losses.

Chapter VII

THE IMPORT TRADE AND PREFERENCES: SUMMARY OF EFFECTS

There have been significant changes in the composition and distribution of India's import trade during recent years. A brief analysis of some outstanding trends in the make-up and direction of imports as well as of some general factors in the import trade situation before and during the period of operation of the Ottawa Agreement, would provide an instructive approach to an examination of the working of preferences on the import side.

1. Composition and Distribution of India's Import Trade

Composition

The table overleaf shows important changes in the composition of India's import trade from the pre-War years to 1932-3 and 1935-6, as indicated by the tendencies to growth or decline of important lines of imports

There has been a marked falling off in the imports of consumer's goods like cotton and other textile manufactures, apparel and haberdashery, and metals, namely iron and steel, and copper, brass, etc. (raw materials of the domestic utensil industry) The decline in textiles has continued after 1932-3, though the fall in metals has been arrested.

On the other hand, imports of capital goods and semi-raw materials such as machinery, instruments and apparatus, chemicals and dyestuffs, petrol and fuel oils, rubber manufactures and vehicles have increased greatly and continue to grow under the stimulus of the general expansion of Indian industry which appears to be taking place behind the shelter of the relatively high tariff wall. So also imports of articles such as motor-cars, pedal cycles, electrical appliances of all kinds, wireless apparatus, telegraph and telephone apparatus, provisions and chemical manures have increased and reflect

TABLE XL

Changing Composition in the Value of India's Import Trade

(Rs crores)

	Pre-War average (1909-13)	1932-3	1935-6	Increase or decrease (−) in 1932-3 over pre-War average	Increase or decrease (−) in 1935-6 over 1932-3
Cotton yarn and manufactures	52·2	26·8	21 2	−25·4	−5·6
Woollen manufactures	3·1	2 5	2·3	−0 6	−0 2
Silk manufactures	2·8	3 2	2·2	0·4	−1
Apparel, haberdashery and millinery	2·9	1·5	1 3	−1 4	−0 2
Metals	12 5	5·3	7·2	−7 2	1 9
Total	73 5	39 3	34 2	−34·2	−5 1
Machinery and mill work	5·6	10 5	13 7	4 9	3·2
Petrol and fuel oils	1	4 2	3 8	3 2	−0·4
Vehicles	1 7	3 8	6 9	2 1	3 1
Instruments, apparatus and appliances	1 4	3 8	5·2	2 4	1·4
Hardware	3 2	2 6	3 3	−0 6	0·7
Dyes	1 3	2·5	3 3	1 2	0·8
Chemicals, drugs and medicines	1 8	4 6	5·2	2 8	0 6
Rubber—raw	0 2	2	2 1	1·8	0 1
Cotton—raw	1	7 3	6 7	6 3	−0·6
Total	17 2	41 3	50·2	24 1	8 9

the increased general demand by the Indian public for the amenities and facilities of modern life.

These changes in the composition of the import trade throw significant light on the altering structure of India's demand for foreign products as a result of developments in her internal economic life. There is a growing demand for the highly finished products of specialized skill and advanced technique, the economical production of which cannot yet be undertaken in India. There is an increasing demand at the same time for machinery and equipment which may enable her to produce for herself many of the things for which she used to depend formerly on foreign countries.

The countries which can best meet her requirements in these respects are likely in the long run to score an advantage

over others in the competitive struggle to secure a larger share of India's import trade.

Distribution

The following table shows the distribution of India's import trade among the important supplying countries by actual value and percentage[1]

TABLE XLI

Distribution of India's Import Trade

(Rs crores)

From	1928-9	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom	113 2	44 8	48 8	47 6	53 7	52 2	48 1
Germany	15 8	10 2	10 4	8 9	10 1	12 4	12 1
France	4 8	2 2	2	1 5	1 5	1 3	1 1
Italy	7 4	3 6	4	2 9	3	2	1 2
Belgium	7 2	3	3 4	2 7	2 2	2 4	2 8
U S A	17 5	10 8	11 3	7 2	8 4	8 9	8 2
Japan	17 7	13 3	20 5	16 4	20 8	21 8	21 3
Total	253 3	126 4	132 6	115 4	132 3	134 4	125 2

Percentages

United Kingdom	44 7	35 5	36 8	41 3	40 6	38 8	38 4
Germany	6 3	8 1	7 8	7 7	7 6	9 2	9 7
France	1 9	1 7	1 5	1 3	1 2	1	0 9
Italy	2·9	2 8	3	2 5	2 3	1 5	1 1
Belgium	2 8	2 4	2 6	2 3	1 6	1 8	2 2
U S A	7 1	10 2	8 5	6 2	6 4	6 6	6 5
Japan	7	10 6	15 4	14 2	15 7	16 3	17

From 1928-9 to 1931-2 total imports were exactly halved, imports from the United Kingdom were reduced by 60 per cent, and their relative share dropped from nearly 45 per cent to 35·5 per cent. The relative position of the United Kingdom's most redoubtable competitors, Germany, the United States and Japan improved appreciably.

Among the factors responsible for the heavy set-back in the position of United Kingdom imports were their relatively

[1] *Review of the Trade of India*, 1928-9—1936-7

high price, which specially penalized demand during a period of general impoverishment, and their political boycott in India.

The year 1931-2 was, however, the last of fifteen years of continuous decline in the United Kingdom's relative share from the post-War level of 61 per cent in 1920-1. After 1931-2, the United Kingdom's proportion of Indian imports moved upwards, and in 1933-4 stood at 41·3 per cent. Since then it has again receded to 38·4 per cent in 1936-7.

In direct contrast to the changes in the relative share of the United Kingdom, imports from the United States and Germany fell till 1933-4, but experienced an appreciable revival after, particularly in the case of Germany. Japan, too, has recently made a most striking advance, forging rapidly ahead in a variety of directions: her relative share leaped from 10·6 per cent in 1931-2 to 17 per cent in 1936-7.

It would appear that the United Kingdom succeeded in improving her position in the import trade of India with the help of preferential duties, but has had to retreat from the ground thus gained in face of the strong competition from varied foreign sources In view of the above, and the fact that the greatest advantage of preference was evident in 1933-4, since which year the United Kingdom share of even preferred articles has receded somewhat (see below), the following analysis has not been carried beyond 1935-6.

2 Preferred and Non-Preferred Imports

The table on the next page has been compiled to show the relative movements of trade in preferred and non-preferred goods.

It will be seen, firstly, that preferred imports as a whole have increased during the period of operation of the preferences, while non-preferred imports have declined. This divergence of trends may not, however, be ascribed to the fact of preference. The grant of preferences did *not* bring about a net lowering of the tariff impediment against imports but

in fact some increase in the average tariff on preferred imports.[1] The general increase in the aggregate volume of preferred articles would, therefore, appear to have occurred largely in the normal course of an expansion of demand for articles in that category.

TABLE XLII

Distribution of Imports of Preferred and Non-Preferred Articles into India

From	1932-3	1933-4	1934-5	1935-6
	Preferred Articles (Rs crores)			
United Kingdom	13 3	14 9	16 9	17 3
Other Countries	20 1	17 6	21 5	21 7
Total	33 4	32 5	38 4	39
United Kingdom, per cent	*40*	*46*	*44*	*44*
	Non-Preferred Articles (Rs crores)			
United Kingdom	35·5	32 7	36 9	34 9
Other Countries	63 7	50 2	57	60 5
Total	99 2	82 9	93 9	95 4
United Kingdom, per cent	*36*	*39*	*39*	*37*
	Preferred Articles Indices			
United Kingdom	100	112	127	130
Other Countries	100	88	107	108
Total	100	98	115	117
	Non-Preferred Articles Indices			
United Kingdom	100	92	104	98
Other Countries	100	79	90	95
Total	100	83	94	96

Advantage of Preference to United Kingdom Exports

It was the distribution of that increased volume between the United Kingdom, on the one hand, and other countries on the other that was altered by the preference to the advantage

[1] 60 per cent of the preferred imports were derived from foreign countries and became subject to the higher rate, as will appear presently

of the former. Imports of preferred articles from the United Kingdom increased by 30 per cent between 1932-3 and 1935-6, from other countries only by 8 per cent; the United Kingdom's relative share advanced accordingly from 40 to 44 per cent between the two years. It had been 46 per cent in 1933-4.

The drop in imports of both preferred and non-preferred kinds from the United Kingdom in the last year was accentuated by competition from Japan in an ever widening range of commodities at prices which were so far below United Kingdom quotations as to nullify the effect of a 10 per cent preference. Moreover, in view of the subsidizing of German exports in order to provide foreign exchange, competition from that country in such groups as machinery, instruments and apparatus, railway rolling stock and non-ferrous metals was at prices against which a 10 per cent advantage was quite ineffective.

'Though the influence of the preference has been neutralized in many cases, there can be no doubt that the 10 per cent fiscal advantage has been valuable in assisting the United Kingdom at least to maintain, and in some cases to improve, her relative position in a number of highly competitive trades. It seems probable that without this advantage United Kingdom exports would have materially lost ground under valuable heads of trade such as hardware, chemicals, non-ferrous metals, appliances and apparatus, motor vehicles and tyres, provisions, cycles, paints and certain sections of textiles, notably woollens and made-up goods, where continental competition in the past has been particularly severe'[1]

The decline in non-preferred imports, not directly connected with the fact of preference, occurred mainly in the protected items of certain articles, the major drop being in sugar from Rs 6·2 to 1·9 crores between 1932-3 and 1935-6. The drop in sugar, which is mostly imported from Java, a Dutch colony, accounts for the larger part of the small relative increase in the imports of non-preferred articles from the United Kingdom.

[1] Department of Overseas Trade *Report on Economic and Commercial Conditions in India*, 1936, pp 11-12

'Costs' of Preferences on Imports

Preference to United Kingdom goods was granted in respect of Rs 4·8 crores of imports in 1931 by an increase of the general rate from 25 to 35 per cent *ad valorem*, with the preferential rate unaltered; on another Rs. 4·1 crores, by the reduction of the preferential rate for the most part from 50 to 40 per cent; and on much the largest part of imports, namely Rs. 24·4 crores, by a simultaneous increase and decrease by 5 per cent of the general and preferential rates to 30 per cent and 20 per cent respectively. These tariff adjustments must involve some change in the volume of imports, in the relative importance of different sources of supply as well as in the prices of imports from various sources Such re-arrangement as would not have taken place except for the introduction of tariff differentiation may involve a cost to the community arising out of different combinations of the following changes · (1) a *net* change in the degree of protection to domestic industries; (2) a *net* change in the burden on the consumer; (3) a *net* alteration of the amount of revenue accruing to the State. All these various *net* effects impinge themselves on the interests concerned through changes in quantities imported from different sources, and in prices of those imports.

Protection of Home Industries

In regard to the level of protection to home industries, it may be noted, in the first place, that the products of the protected industries were excluded from the scope within which the grant of preferences could be considered.[1]

This, however, concerned only the large scale industries to which protection had been formally granted. There are, besides, a large number of small scale industries 'without any organized association of establishments', which have been multiplied as a result of the high revenue duties imposed after March 1931 as well as the growth of the 'swadeshi' or 'buy Indian' sentiment. It is possible, as the Special Committee

[1] cf *Report of the Indian Delegation*, p 12 'The protective duties also stood in a class apart The instructions we received from the Government of India precluded the acceptance of any proposal which would have the effect of impairing the protection afforded to an Indian industry by an Act of the Indian Legislature'

of the Assembly appointed to examine the Agreement observed, that some Indian industries might have been detrimentally affected by the lowering of the existing rate of duty on imports from the United Kingdom. No statistics are, however, available regarding production in such industries. The Select Committee appointed to amend the tariff to give effect to the scheme of preferences agreed upon at Ottawa, felt the need for complete statistics of industrial production and unanimously recommended that, as far as possible, steps should be taken to collect and compile such statistics. But little has so far been done to carry that recommendation into effect.[1]

3. Import Prices and Consumer's Burden

The consumer is interested in getting satisfaction of his requirements at a minimum price. From his point of view, primary importance attaches to the prices of imported commodities. Changes in quantities sold as a result of changes in prices are also important, but it is more difficult to trace them to the preference.

Certain statistics of the prices at port of imported commodities subject to preferential rates of duty were compiled and given in the two *Reports* of the Department of Commercial Intelligence and Statistics on the working of the Scheme of Preferences for 1933-4 and 1934-5 The trend of such prices appeared on the whole to be downward since the Ottawa Agreement came into operation. The consumer did appear to be somewhat better off than he had been before the preferences came into effect, but it is not correct to conclude that the 'consumer has profited to some extent as a result of the scheme of preferences'.[2]

A simple comparison of prices *before* and *after* Ottawa, by itself, hardly makes it possible to say how far any change that may have occurred was due to the preferences. Strictly, for that purpose, we need to know not prices at two different times, which necessarily means under two different sets of

[1] It would no doubt be impracticable to set up a special machinery for the sole purpose of preparing statistics of production in small scale industries Such statistics could, however, be collected in the course of completing a Census of Production as recommended by Professor A L Bowley and Mr D R Robertson in *A Scheme for an Economic Census of India*, p 16

[2] *First Report on the Working of the Scheme of Preferences*, p 152

conditions, but the prices under preference at a given time and the prices that would have prevailed at the same time without the preference. Such a method is, of course, impossible to adopt In the alternative, we must try to analyse the causes of the observed decline of prices to see if there are no other factors which may explain a fall in the prices of imported manufactured articles in recent years. It may be some help towards an explanation to compare the movements in the prices of preferred imports with the prices of goods which are *not* subjected to differential rates of duty but continue to be admitted as before at uniform rates of duty. But the value of such a comparison is strictly limited, since the conditions affecting the two classes of articles differ widely in some respects, in particular non-preferred articles being protected in many cases.

Another method for disentangling the effect of the preferences from other general factors would be to compare the prices of preferred articles here with those of the same articles in certain other countries under a non-differential tariff. The value of this method, again, is limited, because the preference on any class of British manufactured goods may extend over so large a part of their whole market that the entire geographical structure of prices might be affected.[1]

In order to determine whether and how far the decline in prices of preferred articles was part of a general tendency, we have, therefore, to fall back upon other indices of the general price movement of the type of goods that receive preference in India Now the price indices which may be taken as the best available equivalent of the prices of preferred imported articles are not the indices of general wholesale prices,[2] but those relating to the prices of internationally traded *manufactured* goods.

It is hardly necessary to adduce evidence to prove that such

[1] Moreover, the phenomenon of price discrimination is more common than is generally imagined Besides, the factors affecting price formation in other markets may be obscure to a distant observer And it appears hardly practicable to set up a special machinery for such a task of dubious utility

[2] The first Departmental *Report* gives a comparative statement of these indices, and, observing a relative steadiness in the wholesale prices of other important countries in the sterling area, concludes that the decline of prices of preferred articles in India was at least partially due to preference

prices were falling almost throughout the period of operation of the preferences until 1935-6.[1]

The fall in the prices of preferred imports was part of a general tendency to falling prices in the case of manufactured articles and could not be due to the fact of preference, or any resulting increase in competition between goods coming from the United Kingdom and other countries.[2] The only effect, indeed, of the introduction of preferences as such on the prices of imported goods could be in the direction of raising them: in regard to the greater part of imports there was an increase in the tariff, only in respect of the relatively smaller part, a decrease.[3]

Difficulty of Inductive Analysis

Again, the preferences have been only one out of many varied and complex factors operating to change the prices and quantities and, therefore, the values of imports from various sources, and determining the consumer's burden and the revenues of the State in respect of various classes of goods.

It is, therefore, neither possible to determine the additional burden on the consumer, if any, resulting from the preferences, nor to estimate the loss of revenue, if any, that may have been involved thereby, by a simple comparison of

[1] See *Indian Journal of Economics*, April 1937, my article on 'Recent Tariff Policy in India' The directly contrary trends of the prices of imported and exported articles in the case of India during the whole period of operation of the Ottawa Agreement throw significant light on this aspect of the question (see *Review of the Trade of India*, 1932-3—1935-6)

December 1914=100

	Imported Articles	Exported Articles
December 1932	115	69
December 1933	112	73
December 1934	109	76
December 1935	109	85
March 1936	105	82

The exported articles mainly consist of raw materials and foodstuffs, and imports are mostly made up of manufactured goods The characteristic trends of the indices of exports and imports are determined by the principal components of the two series, and would be more pronounced if the indices referred to export prices of primary products and import prices of manufactured goods alone As the author of the *Review of the Trade of India*, 1935-6, observes 'In the case of manufactures, industrial equipment has been greatly improved in recent years—a usual feature in a period of depression—and manufacturing costs have been brought down This, combined with keen trade competition in a restricted world market, has tended to reduce the prices of manufactured articles'

[2] A view which the first Departmental *Report* (p 151) supports

[3] See below, Section 5.

statistics (of prices and actual revenue receipts respectively) before and after the introduction of preferential duties.

4 Economic Principles of Preferential Duties

The preferential scheme has to be examined in the light of the theory of differential duties, in order to form an approximate estimate of the net change in respect of the burden on the consumer and the amount of revenue, taken together, which might have resulted therefrom

Preference and Protection

The policy of tariff preference has much in common with that of tariff protection both as regards the ends sought and means employed as also in respect of the costs involved for the attainment of similar ends. The policy of protection seeks to encourage home production in *preference* to imports from (and production in) all outside countries. The policy of preference aims to encourage production in a particular foreign country in *preference* to production in other foreign countries The former policy tends to safeguard and strengthen the position of home industries, the latter tends to foster foreign industries of the country to which preference is accorded.[1] The tariff is the instrument in both cases and the method of encouragement is likewise similar : the consumer is called upon to undergo a sacrifice by the restriction of his sources of supply ; and/or the State is called upon to forgo some part of its revenue by the introduction of non-revenue considerations into the framing of the tariff The criteria for the exercise of discrimination are also alike in the two cases · industries for protection or preference should be so selected as to minimize the inevitable burden[2] on the consumer.

Incidence of Preferential Duties

The form in which an increased burden on the consumer manifests itself in actual practice is a rise of prices. According to the theory of differential duties the precise effect of the

[1] Or, alternatively, it might be said that the policy of protection seeks to *protect* home industry against similar products of all foreign industries the policy of preference aims to *protect* the products of an industry of a particular foreign country against the products of similar industries of other foreign countries

[2] The burden is regarded as more or less inevitable on the assumption that the amount of State revenue is not to be reduced by any preferential arrangement

imposition of differential duties on a commodity or class of commodities would depend, in technical language, on the elasticity of demand (for that commodity or class of commodities) in the country granting preference, together with the volume and elasticity of supply in the preferred country and other producing countries. The price of a commodity will tend to be governed more nearly by the higher (general) or lower (preferential) rate of duty[1] respectively (1) the more urgent or the more elastic is the demand for the commodity in the country granting preference; (2) the greater or smaller is the quantity imported from the more highly taxed, relatively to that from the less highly taxed source or sources; (3) the greater or smaller is the decrease in the quantity offered from the non-preferred source or sources; and (4) the smaller or larger is the increase in the quantity of the commodity offered from the preferred source or sources—in consequence of a given rise of price.

Elasticity of Supply

In sum, these variables imply that the effect of preference would depend on the relative efficiency (i.e. the amount as well as the elasticity or expansibility of supply) of the preferred and non-preferred sources. A country should accordingly encourage those industries of a second country which are more efficient and 'elastic' than similar industries in third countries and which would ultimately enable the consumer to meet his wants as cheaply and in as full a measure as under conditions of free and unrestricted competition That these considerations are similar to the principles of discriminating protection enunciated by the Indian Fiscal Commission will be readily seen.[2]

Relative Importance of Source of Supply

We do not possess the requisite amount of knowledge about all the facts of elasticity to enable us to judge with accuracy the probable effect of preference on prices in the case of different preferred commodities. However, the most direct index of the relative efficiency of a particular country for

[1] This applies irrespective of whether the differentiation is effected by raising the general rate, or by lowering the preferential rate, or by a combination of both methods

[2] See *Report of the Indian Fiscal Commission*, Chapter VII, para 97 Also see below Chapter VIII, 3, 'Difficulties of Industrial Co-operation'

supplying the needs of the consumers of a given class of goods under conditions of competition is the proportion of imports of that class already derived from that country

Adopting that index as guide, the *Report on Reciprocity and Commercial Treaties* prepared by the United States Tariff Commission describes the economic effects of differential duties thus . 'As regards economic effects, reduction of duty under the concessional method may have different consequences under varying conditions of supply as regards the article affected Where a reduction of duty affects only a fraction of the imports of a particular article, and the major portion of that article is still left subject to the main, or non-concessional duty, the result is not only a loss of revenue to the Treasury, because of the lower rates of duty, but absence of any gain to consumers.[1] The reduction of duty redounds only to the advantage of the foreign producers'[2]

'Consumer's Burden' : 'Loss of Revenue'

Here it is necessary to point out that there is a certain amount of confusion in the current notions of 'burden on the consumer' and 'loss of revenue'. These expressions as commonly understood have distinct connotations. And, indeed, they ordinarily have But when used to describe the effects of preferential duties they are alternative modes of describing an identical fact and therefore more or less synonymous terms The raising of revenue by customs duties inevitably involves a burden on the consumer, which is thus a necessary incident of such process. In so far, therefore, as the increased burden on the consumer may be accompanied

[1] Strictly, it is not correct to say that 'the result is *not only* a loss of revenue but absence of any gain to consumers' For this would be to count the loss twice over if, as a result of remission of duty, there were a gain to consumers equivalent to the loss of revenue, there would, indeed, remain no loss of revenue properly assignable to the differentiation in duties A loss of revenue is ascribed to the introduction of preference, precisely *because of* the absence of any corresponding gain to consumers The latter, or an unnecessary consumer's burden, does not, therefore, exist *in addition to* the loss of revenue but in fact *constitutes* that loss

[2] Quoted in the *Report of the Indian Fiscal Commission*, p 104 Also cf F W Taussig 'If one indispensable (or predominant) part of the supply is taxed, the price of the whole supply goes up those producers who are exempt pocket the tax The duty will tax the home public and put money into the pockets of the other foreign producers Therefore a country will not often accept a loss of revenue and transfer a gain to foreign producers by remitting a duty on a portion only of its imports'—*Free Trade, the Tariff and Reciprocity*, 1920, p 128

by a corresponding addition to the revenues of the State, or in so far as the loss of revenue may be compensated by an equivalent reduction in the burden on the consumer, the scheme of differential duties as such cannot be said to have caused any ‘ burden ’ or ‘ loss ’.

The cost of according preference may then be reckoned either as a ‘ burden on the consumer ’, in so far as the burden is *more* than it should be by reason of the revenue that is added to the State treasury, or alternatively as a ‘ loss of revenue ’ to the State, in the sense that the revenue is *less* than it should be by virtue of the burden that is entailed upon the consumer.[1]

Thus, for instance, the amount of revenue may remain the same after, as before, the grant of preference. It may, nevertheless, not be possible to say whether or not a ‘ loss of revenue ’ has been involved by the introduction of preference. There may be a loss in the real sense of the term explained above under certain conditions : ‘ if two rates are imposed and the consumer pays a price based on the higher rate,[2] the State does not secure as revenue the full amount taken from the pocket of the consumer.’ The State, therefore, loses revenue —not possibly actual revenue, but relatively to the amount which it should receive by reason of the burden that is placed on the consumer.

All things considered, the sacrifice will be minimized—and may indeed be replaced by a positive gain[3]—if ‘ virtually

[1] The interests of the State and the consumer are equally regarded Thus, if preference is granted by raising the general rate, the preferential rate remaining unaltered, prices will tend to rise and an increase in the burden on the consumer will necessarily result But there will at the same time occur an increase in the revenues of the State Now the increase in the consumer's burden could be ascribed to the preference only if, and in so far as, it were *greater than* the increase in the revenues of the State Similarly, if preference is accorded by a reduction of the preferential rate, the general rate remaining unchanged, a loss of revenue becomes inevitable But this would be accompanied by some fall in prices and reduction in the consumer's burden The loss of revenue could not, therefore, be assigned to the preference except to the extent that it *exceeds* the reduction in the consumer's burden

[2] As he would, ‘ if a reduction of duty affected only a fraction of the imports of a particular article ’

[3] The view that a lowering of the import tariff is always a concession that necessarily involves a sacrifice by the party granting it is based on error Tariff concessions that lead to reciprocally freer trade between two or more countries and thus enlarge the area of international specialization of economic activities, confer benefit on the countries granting them as on those that receive them, though unilateral reduction of tariffs in a tariff-ridden world raises its own difficult problems for the internal economy and revenues of a State.

the entire imported supply of a given article is admitted at the lowered concessional rates', the effect being that of a general reduction of duty. There may be some gain to the foreign producer, to the extent that his market is enlarged, but it would redound ultimately to the advantage of the domestic consumer, whose supplies would be more lightly taxed. Though there may be some loss of actual revenue, it would be fully compensated by a reduction of the burden on the consumer, and may even be directly made up by an expansion of demand consequent upon the lower rate.

5. An Estimate of the 'Costs' of Preferences on Imports

Though the principles discussed above hold irrespective of the method of effecting the differentiation, whether by raising the general rate, or lowering the preferential rate, or a combination of both methods, the precise nature of results in respect of the actual change in the consumer's burden or gain or loss of revenue is doubtless determined in some measure by the actual method adopted The working of the scheme of preferences on imports may therefore be examined in the light of the above principles.

Now in the case of 35 per cent of the preferred imports in 1932-3 (11·6 crores) only 25 per cent (2·9 crores), or just a quarter of the total, were supplied by the United Kingdom, three-quarters (8·7 crores) coming from foreign countries. In respect of these[1] the addition to the consumer's burden should have been greater than the gain of revenue, or the reduction of the consumer's burden less than the loss of

[1] Commodities of which 32 per cent or less of the total imports in each case were derived from the United Kingdom in 1932-3 They are the following, the figure within brackets after each commodity indicating the percentage derived from the United Kingdom brushes (31), buttons of metal (6), cutlery, other than pruning knives (23), cork manufactures (8), earthenware and porcelain (18), glue (20), hardware (29), wrought brass, bronze and similar alloys (31), wrought copper (25), German silver (19), wrought zinc (18), synthetic essential oils (5), natural essential oil (16), lubricating (mineral) other than batching oil (19), vegetable non-essential oils (9), packing paper (8), other sorts of paper and paper manufacture (30), pasteboard manufactures (24), smokers' requisites (26), haberdashery and millinery (24), worsted yarn (25), toys and requisites for games and sports (22), umbrellas and umbrella fittings (13), motor omnibuses and chassis (21), parts of mechanically propelled vehicles and accessories (32)

revenue, according to the method employed for effecting the preference.

On 6·7 crores of commodities in this group the preference was effected by a simultaneous raising and lowering of the general and preferential rates by 5 per cent, on 3·3 crores by a raising of the general rate mostly by 10 per cent, and on 1·6 crores by a lowering of the preferential rate by 10 per cent or 7½ per cent.

On 6·7 crores of imports, then, there was an increase in the import duty on about three-quarters of the supply, and a reduction on one-quarter. According to the view advanced in the last section, the price of the entire supply should tend to rise by the full amount of duty, if the rate of duty is increased on the bulk of imports and is maintained on a relatively unimportant part of the imported supply. But in this case the duty on the smaller part of imports, which formed one-third of the larger part, was not maintained but actually reduced by 5 per cent. It may be assumed then that the price of the whole supply should have risen by two-thirds of the increase in duty, or by 3⅓ per cent. The increase in the consumer's burden resulting from the change should have been 22 lakhs on this basis. The increase of customs revenue from preference should have been 17 lakhs, 5 lakhs being the *excess* of the increase of consumer's burden *over* the increase of revenue.

On 3·3 crores of imports, again, a similar excess of 8 lakhs accrued on the assumption that the consumer's burden was 33 lakhs as a result of the average price level of all imports increasing by 10 per cent of the price in bond, and the customs revenue was 25 lakhs as a result of a 10 per cent increase on the non-preferred imports only.

A similar excess of 3 lakhs of loss of revenue over reduction of the consumer's burden accrued on 1·6 crores of imports on the assumption that the revenue on the preferred imports fell by 8 per cent[1] and the price level of all imports did not change. Altogether, the positive difference between the addition to the consumer's burden and the additional amount of revenue on the above basis would be 16 lakhs.

[1] The average reduction of duty taking into account the relative importance of commodities on which duty was reduced by 10 per cent and 7½ per cent respectively

But there are other commodities, on the other hand, which are mostly derived from the United Kingdom, and of which imports from foreign countries are relatively unimportant.[1] It is possible to see by an exactly similar process of reasoning that a preference on such commodities (if it were effected as before by a raising of the general rate) should lead to an increase of revenue without a corresponding rise of prices or addition to the consumer's burden, or (if the preference were effected by a lowering of the preferential rate) to a reduction of the consumer's burden without a corresponding loss of revenue

But the commodities of which 65 per cent or more of the imports were derived from the United Kingdom only formed 3 per cent (99 lakhs) of the total imports in 1932-3, of which 83 per cent (82 lakhs) were provided by the United Kingdom. The imports from the United Kingdom and total imports increased respectively to 96 and 115 lakhs in 1935-6, almost the entire increase being in imports from the United Kingdom. The proportion of imports on which preference was effected by any of the three methods noted above was about equal, so that on the whole it may be assumed that preference was effected by an increase of the general rate by 5 per cent and a decrease of the preferential rate by 5 per cent As the predominant part of imports on which the rate of duty was lowered was derived from the United Kingdom, it may be assumed that the average prices of all imports (1 crore) declined by fully 5 per cent of prices in bond, or the reduction of the consumer's burden was 5 lakhs The revenue declined by 5 per cent on four-fifths of the imports, or by 4 lakhs, and rose by 5 per cent on a fifth of the imports, or by a lakh, altogether declining by 3 lakhs. The amount by which the reduction of the consumer's burden was greater than the loss of revenue would thus have been 2 lakhs.

Besides, there were a number of highly competitive lines, imports of which made up 62 per cent (20·7 crores) of the total imports in 1932-3. 45 per cent of such imports (9·32

[1] Of the following commodities 65 per cent or more of the total imports in 1932-3 were derived from the United Kingdom, the figure within brackets after each commodity indicating the percentage supplied by the United Kingdom. arms and ammunition (90), firearms (80), asbestos manufactures (69), wrought lead (77), packing of all kinds (90), toilet soap (80), parts of carriages and carts (65), cycles (91).

crores) were derived from the United Kingdom. The parts of such imports on which preference was granted only by raising the general rate and on which it was effected only by lowering the preferential rate were about equal, more or less a crore each.[1] So that it may be assumed that preference was introduced on the whole imports of this group by a simultaneous increase and decrease of the general and preferential rates. Imports from the United Kingdom and all countries increased from 9·32 and 20·69 crores to 13·04 and 25·31 crores respectively, the United Kingdom share improving from 45 to about 52 per cent. There should have been little difference *as a result of* the preference either in the customs revenue or in the burden on the consumer on this class of commodities on the basis of the above facts.[2]

So that the *net excess* of the increase in the consumer's burden over the increase of revenue on the methods and assumptions adopted above would appear to have been about 14 lakhs.

Altogether, alarming estimates of the 'loss of revenue'[3] or 'burden on the consumer'[3] are based on error and do not stand scrutiny.

The above analysis can by no means be taken as furnishing a precise measure of the cost of import preferences. Based as it is on a general observation of broad facts without direct reference to the many and complex forces that condition trade and price movements, it can at best be regarded as no more than a good conjecture of the annual amount of loss to the community (including the State and the consumer) from the grant of preferences on the import side.

[1] The general rate was raised by 10 per cent on 1 crore of imports, and the preferential rate was lowered by 7½ per cent on 128 lakhs of imports of motor-cars.

[2] It has been implied in certain analyses of the costs of preference that the shifting of imports from the more highly, to the less highly, taxed source under a scheme of tariff differentiation is a disadvantage *per se*, because it involves a loss of revenue (*Servant of India*, March 1936, D R Gadgil, Article V, 'Ottawa Agreements') But, as has been explained above, loss of revenue is always relative to the consumer's burden If the increased facility of United Kingdom supplies under preference reduces revenue, it also reduces the burden on the consumer involved by differentiation In fact, elasticity of the preferred supply should be considered a distinct advantage from the point of view of the preferential scheme That it has been regarded as a source of disadvantage is an illustration of the confusion likely to result from attempts to separate a consideration of 'loss of revenue' from 'the consumer's burden'

[3] Always understood in the sense explained earlier, relatively to one another.

It appears pertinent to point out, however, that this estimate is by no means directly comparable with the estimate of gain from preferences in the United Kingdom on Indian exports made in the last chapter. The latter refers to the net additional amount of exports secured with the help of preferences, the former to the net additional cost of obtaining an amount of imports from one source rather than others. In any attempt to square the benefits and burdens involved, a comparatively small quantity of the former would correspond to a relatively much larger quantity of the latter.

Again, it should be remembered that the scope of preferences on imports is in fact far wider than under the schedules of the Ottawa Agreement. The important 'preferences' on cotton and steel have to be taken into account at least to the extent that their continuance is inconsistent with, or is not dictated by, considerations of Discriminating Protection Some attempt at an evaluation of the cost of such 'preferences'—which have an economic background of their own—is made in Chapter IX Reference to it is suggested for the purpose of forming any approximate balance sheet of the advantages and disadvantages of Imperial preference or economic reciprocity as applied between the United Kingdom and India.

Apart from its direct cost, however, the grant of preference over so wide a range of imports has far reaching implications for the whole commercial policy of the country In 1935-6, of 134·4 crores of imports 64·7 crores or 48 per cent (including imports of cotton goods and steel) were subject to some form of preferential or differential duties. Now, discrimination against the trade of all foreign countries in favour of a single country, howsoever important as a market the latter might be, extending over half the total imports, renders impossible the working of any policy having for its aim the promotion of equality and fairness in the treatment of exports in foreign countries To this aspect of the question reference is made in a later chapter.[1]

[1] See below Chapter X, 3

Chapter VIII

IMPERIAL INDUSTRIAL CO-OPERATION

1. Enunciation of Principles

The above pages have been devoted to a consideration of Imperial preference or economic co-operation on general lines as embodied in preferential tariff agreements, in particular the Ottawa Trade Agreement between the Governments of the United Kingdom and India. An examination will now be made of a special aspect of such economic co-operation, namely, Imperial industrial co-operation, which has assumed such importance recently as to deserve a little separate treatment.

The Imperial Economic Committee on Industrial Co-operation

The Imperial Economic Committee in their *Twenty-first Report on Imperial Industrial Co-operation* have given systematic form to an idea which had been assuming shape for many years and had shortly before found authoritative unofficial expression [1]

Industrial co-operation is another name for complementary production, or the division of industry on a complementary basis between the more industrialized and less industrialized parts of the Empire [2] It is recognized as inevitable, even desirable, that the economically backward parts of the Empire

[1] The following passage from the 'Report Preparatory to the Imperial Conference of 1930' prepared by representatives of the Association of British Chambers of Commerce, the Federation of British Industries and the Chamber of Shipping of the United Kingdom deserves to be noted 'The Committee believes that the only means of obtaining a substantial growth and efficient rationalization of Imperial resources, both from the point of view of inter-Imperial trade and of Imperial-world trade, is for the representatives of industry, commerce, shipping and finance in the various parts of the Empire to be fully consulted by their Governments upon questions of policy, and themselves to get into the closest touch possible throughout the Empire with a view to discussing as a matter of business, the most efficient and profitable organization of Empire production and development as a whole'—Imperial Economic Committee *Twenty-first Report on Imperial Industrial Co-operation*, 1932, p 6

[2] The idea is 'in particular that the members of the system who are less advanced in industrial development (in this case the overseas Dominions) should leave the more complicated and specialized branches of manufacture as far as possible to the highly industrialized members (in this case the United Kingdom)'—Royal Institute of International Affairs *The British Empire*, 1937, p 281

should seek to develop the industrial side of their national lives But where the necessary conditions for a high degree of specialization are not realized, it is suggested that arrangements should be made to secure as large a share of the import market as possible for the specialized products of the industry of another Empire country. Both or several parts of what may be regarded as one Empire industry should agree not to encroach on the delimited field of manufacture of either or each. Again, it is not intended that such arrangements should become stereotyped. 'The object of co-operation is not, and must not be, to arrest change, but wisely to direct and facilitate its course.'[1]

Progressive industrialization of the advanced as well as the backward parts of the Empire is, indeed, assumed in the whole arrangement. For, if the less industrially advanced parts of the Empire are constantly moving forward towards greater industrialization, the more highly industrialized countries, in order to retain their pre-eminence in manufactures, must also constantly keep ahead of industrial progress, and take on themselves the task of fulfilling new demands as well as old demands in new ways. A system of industrial co-operation is expected to secure more smooth and efficient adaptation to changing conditions and more orderly development on the whole than could otherwise be attained

The *modus operandi* of complementary development between Empire industries must lie in agreements among industrialists themselves, who may be encouraged and supported by the governments concerned

The advantages likely to accrue from such co-operation to the backward parts of the Empire are supposed to lie in the avoidance of the waste of uneconomical, inefficient and unsound industries artificially fostered by tariff protection: the advanced Empire country serves as a cheap outside source of supply of articles for the local manufacture of which the backward country lacks natural competitive advantages.

The Ottawa Conference on Imperial Industrial Co-operation

The *Report* of the Imperial Economic Committee was considered by the Sub-committee on Industrial Co-operation,

[1] *Twenty-first Report on Imperial Industrial Co-operation*, p 11

appointed by the Committee on Methods of Economic Co-operation, of the Imperial Economic Conference at Ottawa, 1932, and a resolution approving of the conclusions of the sub-committee on the question was adopted by the Conference The Conference declared their view that the object of any policy of industrial co-operation within the Commonwealth should be 'to secure the best division of industrial activities among the several parts of the Commonwealth and the ordered economic development of each part, with a view to ensuring the maximum efficiency and economy of production and distribution'.[1] The precise nature and extent of the co-operation to be achieved must depend upon effective consultation between the industrialists concerned, but the Conference recommended that the Governments concerned should facilitate and assist such consultations by all available means. In particular, they should give sympathetic consideration to any proposals aimed at giving effect to the principle of industrial co-operation which might be put before them by representatives of similar industries in parts of the Commonwealth affected.

2. The Dominions and Industrial Co-operation

The Ottawa Agreements and Industrial Co-operation

The agreements between the United Kingdom, on the one hand, and Canada, Australia and New Zealand on the other, contained provisions to ensure some sort of rational and orderly development of economic activity in the latter countries.[2] The Governments of the three Dominions undertook that 'protection by tariff should be afforded only to those industries which are reasonably assured of sound opportunities for success'.[3] Moreover, the degree of protection to industries should not exceed such a level as 'would give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, provided that in the application of such principle special

[1] *Summary of Proceedings and Copies of Trade Agreements, Imperial Economic Conference at Ottawa*, 1932, Cmd 4147, p 17, also cf Cmd 4175, p 48

[2] See above Chapter II, 4

[3] Cmd 4147, Articles 10, 9 and 7 respectively of the United Kingdom-Canadian, United Kingdom-Australian and United Kingdom-New Zealand Agreements.

consideration might be given to the case of industries not fully established'.[1] The New Zealand Government specifically undertook to reduce the protective duties, where necessary, to such a level as would place the United Kingdom manufacturer in the position of a domestic competitor.[2]

A review of existing protective duties by their Tariff Boards in accordance with the above principles was also promised by the three Dominion Governments. Besides, full rights of audience before Dominion Tariff Boards were promised to United Kingdom producers,[3] and the Governments of Canada and Australia undertook not to increase any existing duty (and the Australian Government further undertook not to impose any new duty) on United Kingdom goods except after due inquiry and report by the Tariff Board, and in accordance with its recommendations.[4]

By these agreements Governments took the initiative in the direction of industrial co-operation, where industrialists might be slow to move of their own accord.

The Equalization of Costs Principle

The agreements embodied the so-called scientific, compensatory, competitive, or cost of production principle of tariff-making. The logical error of this principle has been often demonstrated[5] International trade is based fundamentally on international differences in costs of production. To equalize these differences is to destroy the *raison d'être* of international trade. Moreover, the principle of equalization of costs might be held to justify protection of a very extreme order. Apart from this, the qualification made in the agreements in regard to 'infant' industries—and it is again not possible to say definitely when an industry has outgrown its infancy—pointed to the possibility of directly circumventing the equalizing principle of tariff-making

[1] ibid, Articles 11 and 10 respectively of the United Kingdom-Canadian and United Kingdom-Australian Agreements There was no provision in the United Kingdom-New Zealand Agreement

[2] ibid, Article 8 of the United Kingdom-New Zealand Agreement

[3] ibid, Articles 15, 13 and 9 respectively of the three Agreements

[4] ibid, Articles 14 and 12 respectively of the Canadian and Australian Agreements

[5] As illustrations, see T W Page, *Making the Tariff in the United States*, 1924, p 68, Taussig, op cit, p 134

Besides, important difficulties were likely to arise in the practical application of the principle. Everything considered, the utility of the principle—crude and approximate as it is—for securing moderation in tariff policy depended largely upon the spirit in which it was worked.

The results of the working of this part of the agreements between the United Kingdom and Dominions have varied according to the varying interpretations placed upon the principle in the Dominions.

(a) *Canada*

The Canadian Tariff Board set up under the Tariff Board Act, 1931, acted as an interpreter of the Ottawa Agreement, especially in regard to the application of the competitive principle to tariff rates against British goods. It found the principle very difficult to apply in actual practice. In the well-known case of British woollen imports into Canada, the Tariff Board observed, in the first place, that only approximate similarity rather than complete identity could at best be achieved between the categories of imported (or United Kingdom) and home produced (or Canadian) goods. Again, such wide divergences in manufacturing processes and conditions existed between different countries and even in a single country that there could be small hope of attaining identity in the methods of computing costs. In particular, the Canadian Tariff Board could not accept the statistical data supplied by the British Delegation as completely reliable and required further verification by direct examination of the books of the firms reporting. This case only affords an illustration of the great difficulty of equalizing costs of production at home and abroad in real tariff-making

In actual fact, important reductions in the British preferential tariff were effected on the recommendations of the Tariff Board.[1] Nevertheless, any substantial lowering of protective

[1] 'In 1930, the proportion of dutiable imports of total imports was 78 6 per cent, and of free goods 21 14 per cent, imports free under the preferential tariff amounting to 5 6 per cent and under the general tariff to 15 8 per cent. In 1934 the proportion of dutiable imports of total imports was 54 3 per cent and free imports 45 7 per cent, imports free under the preferential tariff amounting to 37 7 per cent, and under the general tariff to 8 per cent'—Department of Overseas Trade · *Report on Economic Conditions in Canada*, 1935, p 118.

import duties was avoided as likely to cause widespread dislocation of well-established, though over-equipped, Canadian industry

Again, the Canadian Tariff Board was deprived by a decision of the Canadian Supreme Court of much of its judicial powers of hearing appeals from rulings made by the Department of National Revenue. Its ability to hold the balance between the United Kingdom exporter and Canadian manufacturer was thus badly impaired.

Finally, these general undertakings, which had proved of such doubtful value in practice, were omitted from the new Anglo-Canadian Agreement concluded at the end of February 1937.

(b) *Australia*

On the principle of the compensatory tariff the Australian Tariff Board expressed its view with refreshing candour. While heartily supporting it in theory, the Board rejected the idea that duties should be merely equalizing[1] On the other hand, it adopted the view that a reasonable duty to protect an efficient industry should be high enough to raise the landed cost of an overseas product to a level which compensated the Australian manufacturer for his dearer labour and raw material and greater overhead costs ; and in addition provided a marginal advantage in his favour As regards the margin postulated, it should, in the view of the Board, 'be wide enough to secure the efficient Australian manufacturers so much of the market as is represented by goods which can be economically produced in the Commonwealth, but narrow enough to preclude any inefficiency, uneconomic extension or undue profit-taking'.[2] Altogether, the Board contended that common sense did not permit, and the agreement did not require, rigid mathematical adherance to the yard-stick of production costs. Infant industries could be accorded special

[1] 'In established efficient industries where capital and overhead charges enter largely into production costs, the division of the present market between local and overseas producers, by restricting local output would increase the cost of production, necessitating higher selling prices and the imposition of higher duties to restore reasonably competitive conditions'—*Report* for 1932-3, quoted in *Round Table*, March 1934, p 398

[2] ibid, p 399

treatment by increasing the marginal advantage in their favour.

The important reductions actually made in the Australian tariff during 1934 and 1935 appear to have been designed largely in the interest of the efficiency of Australian industry itself, and were intended for 'taking up such excess protection as the conditions of the present costs afford':[1] the manufacturing costs in that country had greatly fallen.[2]

In the recent Anglo-Australian negotiations for the conclusion of a new agreement to replace the Ottawa Agreement the Australian Government asked for the abolition of the general clauses of that agreement. The United Kingdom Government, in view of the long record of loose interpretations by the Australian Tariff Board, could not do better than agree.

(c) *New Zealand*

The Report of the New Zealand Tariff Commission submitted on 29 March 1934, defines the underlying principles of the New Zealand tariff policy. The Commission's interpretation of Article 7 of the Ottawa Agreement was that no duties for protective purposes on British goods should be imposed unless the industries so favoured had a reasonable prospect of success. The Commission admitted that in Article 8 the undertaking to place the United Kingdom producer in the position of a domestic competitor was one to which it would be obviously 'a physical and economic impossibility to give literal effect'.[3] But believing that 'an agreement of this kind should receive that large and generous interpretation which was presumably intended by its signatories they held that the Dominion's obligation under Article 8 was to impose a tariff intended to equalize costs of

[1] *Round Table*, March 1935, p 417 Altogether these measures owed their initiative to an important extent to what an informed correspondent calls a remarkable recovery of fiscal sanity in Australian public opinion during the last two years (ibid, p. 411)

[2] The permanent depreciation of the Australian pound relatively to sterling also afforded important additional protection

[3] *Round Table*, December 1934, p 201.

production as between home producers and United Kingdom producers '.[1]

The Government completely approved of the Commission's recommendations, which indeed involved no change in the policy of New Zealand : the New Zealand tariff against Great Britain has been the lowest of all Dominion tariffs.

Even so, in October 1933 the New Zealand Government offered to undertake drastic reduction of their protective tariff on United Kingdom goods if the British Government would guarantee continuance of unrestricted free entry for New Zealand products. The suggestion, however, did not find favour with the latter.[2]

Conclusion

The above ' review of the durable principles of the Ottawa Agreements that might be reaffirmed and reapplied in any amendment of the agreements . . seems to indicate that their immediate practical value is comparatively slight '.[3] These principles, indeed, appeared at the time they were first formulated to be the more permanent part of the Ottawa structure The hopes of those who were disappointed by the actual achievements of Ottawa were sustained by the promise of Ottawa contained in the enunciation of these broad principles for the general regulation of Empire trade policy.[4] As it is, these principles have been jettisoned in the new agreements, and will become increasingly difficult to revive

[1] They understood the principle to imply that the United Kingdom manufacturer should be given a ' fair deal ' in the New Zealand market They refuted the suggestion that this principle is necessarily destructive of foreign trade . ' the suggestion that the equalization of costs principle carried to its ultimate extreme would be destructive of practically all foreign trade begs the question, because we think there is no intention of carrying the principle beyond what appears to be warranted in the national interest The appreciation depends on applying common sense to the data available '—*Survey of International Affairs*, 1934, p 85

' It is difficult to see apart from the equalization of costs principle, any alternative basis for a tariff beyond sectional pressure brought to bear on the legislative body '—New Zealand Tariff Commission, quoted in *Round Table*, December 1934, p 202

[2] There is, indeed, a fundamental conflict between the home economic policy and the foreign commercial policy of the United Kingdom At home, economic policy seeks to foster agriculture Abroad, it is leading to an elaborate system of commercial agreements designed to promote the interchange of British manufactures with overseas agricultural produce.

[3] *The British Empire*, p 283

[4] See, for instance, J Coatman, *Magna Britannia*, 1936, p 187.

as time passes. Imperial industrial co-operation, or Imperial economic co-ordination in a comprehensive form, is now an ideal more remote than ever.

3. India and Industrial Co-operation

(a) *Supplementary Indo-British Trade Agreement*

Unlike the agreements with the Dominions, no general provision was included in the Indo-British Agreement concluded at Ottawa for the regulation of Indian tariff policy in the interests of an orderly development of Empire economic activities. A supplementary Agreement was, however, signed on 9 January 1935, to be current during the period of operation of the Ottawa Agreement. It contains provisions similar in essential respects to the general clauses of the agreements with the Dominions discussed above.

Both the United Kingdom and Indian Governments agreed that while protection to Indian industry against imports from all sources might be necessary in the interest and economic well-being of India, conditions within industries in India, in the United Kingdom and in foreign countries might require a higher level of protection against foreign than against United Kingdom imports.

The Government of India bound themselves to afford protection to such industries only as after due inquiry by the Tariff Board had, in their opinion, established claims to it in accordance with the principles of Discriminating Protection laid down by the Indian Fiscal Commission.[1]

They further undertook that the protection given to any industry should not exceed what was necessary to equate the prices of imported goods to the fair selling prices of similar goods produced in India, and that, wherever possible, in harmony with the above provisions, lower rates of duty should be imposed on the goods of United Kingdom origin. Differential margins of duty in favour of the United Kingdom's goods thus established should not be altered to her detriment.[2]

[1] The three conditions laid down by the Indian Fiscal Commission amount just to this, that an industry must be 'reasonably assured of sound opportunities for success' before it can qualify for protection

[2] The right of the Indian Government to impose an overriding duty on imported goods higher than the protective duty required, however, remained unaffected.

Full right was conceded to interested United Kingdom industries to represent and defend their cases before the Indian Tariff Board, at the time of granting substantive protection to Indian industry or of review or revision of existing duties. The Government of India, again, undertook to institute such a revision on the request of the United Kingdom Government, in the event of any radical changes affecting protected industries during the currency of the period of protection.

The United Kingdom Government in turn promised to consider, in co-operation with respective commercial interests, schemes to develop the import from India of raw or semi-manufactured materials used in the manufacture of articles, which on importation into India were subject to differential protective duties. An undertaking was given, in particular, to continue to use all possible efforts in co-operation with trade interests, to stimulate the consumption of Indian cotton in all possible ways, including technical research, commercial investigation, market liaison and industrial propaganda. Similarly, the duty-free entry of Indian pig-iron into the United Kingdom was assured, so long as the differential margins in respect of imports of iron and steel into India by virtue of the Iron and Steel Protection Act of 1934, were not reduced.

In conclusion, both Governments undertook that in all matters dealt with in the Agreement, they should at all times receive and consider any conclusions, agreements or reports which might be framed as a result of a conference between accredited representatives of industries concerned in the United Kingdom and in India.[1]

The Net Effect of the Supplementary Agreement

Thus, in effect, the principles underlying the protective policy of the country as well as certain accidental results of that policy in the form of differential duties, which had hitherto been worked presumably and avowedly in the sole interests of India, now became part of an obligation assumed by agreement towards a co-contractant.

[1] Salient provisions of the Mody-Lees Pact were incorporated in undertakings by an exchange of notes between the President of the British Board of Trade and the High Commissioner for India. They are considered in the next chapter.

Shift in the Terms of the Iron and Steel Agreement

The Supplementary Agreement, moreover, marked the culmination of a progressive change in the terms of the agreement in regard to iron and steel. In the first instance, at the time of the Ottawa Conference, the free entry of Indian pig-iron into the United Kingdom as well as a substantial outlet for Indian sheet bar there was secured in return for preference on galvanized sheet in India.[1] Then, on the occasion of the Steel Industry Protection Act of 1934, the need for an outlet for Indian sheet bar having ceased to press, the free entry into the United Kingdom of Indian pig-iron only was exchanged for preference on United Kingdom galvanized sheet imports into India. The Supplementary Indo-British Agreement went a step farther. It secured the free entry of Indian pig-iron alone by the guarantee not only of preference on galvanized sheet, but also of the existing margin of difference in duties in favour of the United Kingdom in the case of all other iron and steel products. With effect from 3 March 1937, imports of pig-iron into the United Kingdom from *all* sources became free of duty: the differential advantage of free entry of Indian pig-iron thereby ceased to exist.

The Supplementary Agreement remained in force, although it failed to secure ratification by the Legislative Assembly. The Government claimed that they had done 'nothing more than crystallize their past fiscal practice and the principles which had been accepted either directly or indirectly by the Legislature'.[2] In their view 'it (the Agreement) constituted no more than a formal statement of the principles and the practice of the policy of discriminating protection which had received the approval of the Indian Legislature'.[3]

[1] See below Chapter IX, 5.

[2] *Legislative Assembly Debates*, 29 January 1935, speech of Sir Joseph Bhore

[3] Reply from the Commerce Department to a telegram from the Indian Chamber of Commerce

The view here expressed about the principles and the practice of the policy of discriminating protection had, indeed, been echoed before in the opening speech of the leader of the Indian Delegation to the Imperial Economic Conference at Ottawa, and in the pages of the Delegation *Report* Thus Sir Atul Chatterjee said 'Theoretically, it might seem that preferences in the case of protective duties would be excluded altogether, but practically the result has been different One of the most interesting things about the Indian system of protection is that it has led directly to what has been in effect, if not in intention, a preference for Empire goods'—*Appendices to the Summary of Proceedings, Imperial Economic Conference at Ottawa*, 1932, p 97.

This interpretation of the principles underlying the policy of discriminating protection, however, appears to be of doubtful soundness. It might be useful to recall the circumstances under which the Iron and Steel and Cotton Protection Acts of 1927 and 1930 respectively were carried through the Legislature Briefly, the Assembly had to choose between protection for the Indian industry with preference for British imports, or no protection at all [1] It voted for the former.

Preference may thus have been accepted as an incidental outcome of the policy of discriminating protection in two specific instances. That, however, could hardly be said to have committed the Indian Legislature to grant preference, wherever possible, as a matter of policy [2] On the occasion of the Ottawa Economic Conference the protected articles were definitely excluded from the scope of preferential proposals.[3]

(*b*) *Industrial Co-operation in Practice, Scope and Difficulties*

Scope of Fruitful Industrial Co-operation

Coming to a consideration of the merits of Imperial industrial co-operation from the point of view of India, it might be observed that economic co-operation already obtains to a not unimportant degree between the United Kingdom and this country It might be further promoted in an important measure to the common benefit of both countries

It has been seen how the character of India's import trade

[1] 'I should be misleading the House if I conveyed the impression that Government have an open mind, or that they are prepared to discuss these various amendments on the footing that all of them are equally open for consideration Drastic changes in the scheme embodied in the Bill, it would, I fear, be impossible for the Government to accept.'—*Legislative Assembly Debates*, 13 March 1930, speech of Sir George Rainy

[2] This at least was the view of the Indian Delegation to the Ottawa Conference (see above, Chapter I, 2) The Indian Finance Member, too, discounted any implication of the Assembly's vote pointing to acceptance of a change of policy 'We do not, and in fact, we could not, ask this Assembly to commit themselves, at this stage, to accepting the principle of Imperial preference We ask them to regard this proposal merely as a special measure designed to meet the immediate emergency'—Budget speech of Sir George Schuster, 28 February 1930

[3] See above, Chapter VII, 2 While recommending the Agreement for acceptance, the Indian Delegation reckon 'on the other side of the balance sheet' the fact that 'the protection afforded to Indian industries has not in any way been impaired and India retains complete freedom to shape her tariff policy in the manner she thinks best'—*Report*, p 42.

has been undergoing a progressive change. Before the War, staple lines like cotton manufactures, iron and steel goods and metals preponderated in that trade. During recent years, imports of such goods, particularly cotton manufactures, have dropped heavily, while new lines of imports have developed, and many old lines which were relatively small before are also growing rapidly. Indian industry is taking up the manufacture of many forms of goods which were formerly largely imported: there is at the same time a continual adaptation in the character of the import trade to the many developments in the field of Indian production. More and more, imports take the form of products of the latest scientific technique meeting the new and growing demands for the improved facilities and amenities of modern life, and of capital goods, such as electrical appliances of all kinds, cinematograph films and photographic apparatus, wireless and broadcasting equipment, telephone installations, refrigerating and air-conditioning plants, transport vehicles, chemicals and specialized equipment including machinery of all kinds.

This change in the character of India's import trade, the restriction of old lines and the development of new ones, has been more marked in the case of imports from the United Kingdom than on the whole. Sir Thomas Ainscough, Senior British Trade Commissioner in India, in his *Report* for 1935-6 observes as follows:

> 'Happily, most of the classes of imports affected by these developments are those in which United Kingdom manufacturers already hold a large share and are keeping abreast of market requirements. It is most encouraging to note that in the newer highly technical industries, United Kingdom manufacturers are successfully meeting foreign competition and are reinforcing their efforts by adequate sales, technical and service organization on the spot. Fortunately, too, these classes of imports, which are capable of such great expansion, can be developed without competing with India's own natural industrial development. The friendly co-operation of British manufacturing organization, with their technical experience and knowledge of world-wide conditions, and Indian industrialists, with their knowledge of local conditions,

should be most valuable in research work with the object of stimulating the consumption of their products by creating fresh outlets and uses for them and by joint effort to develop backward sections of the market and by promoting entirely new consumptive demand. *I am convinced that we must rely more and more in future on the supply of capital products and technical equipment to India, thus aiding her own development with our experience and technique.*'[1]

The scope of mutually beneficial co-operation in industry between the United Kingdom and India is admirably summed up in the concluding sentence of the above passage. It is a broad form of economic co-operation in respect of trade, which might be brought about by tariff preferences, not a close form of co-operation among industrialists in the same field, seeking the same ends, which is beset with peculiar difficulties for a poor and backward country like India.

Difficulties of Industrial Co-operation

The scheme of industrial co-operation was only stated in broad outline by the Imperial Economic Committee. As such it appears perfect in all its parts, well co-ordinated and harmonious. In practice it is beset with difficulties and dangers for the weaker partner which it is well to recognize if only to know the conditions of successful co-operation

In the first place, it is doubtful whether such schemes of industrial co-operation in their actual working out could prove sufficiently elastic for a reasonably rapid adaptation of the more highly specialized branch to 'the progressive evolution of the local industry'. No doubt the changing character of demand makes readjustment and reorganization inevitable, and in this process the more specialized industry may open up fresh lines for itself and abandon old ones to be taken up by its younger and less experienced partner. However, the basic postulate in such case, of a shifting demand may not always be realized. The demand for staple lines of manufacture of cotton and iron and steel goods, for instance, is likely to be fairly stable. The increasing inelasticity in the methods of production becomes, therefore, a positive bar against accommodation by the more highly developed industry

[1] The italics are mine

to the growing requirements of the younger industry. Mass production methods, and increasingly elaborate scientific technique, demanding in their turn larger units of production, more elaborate organization and heavier capitalization set up vested interests against change.

Again, the case for industrial co-operation is for the most part the case against fostering with the aid of high tariffs inefficient industries, for which natural comparative advantages are non-existent. It is the case against diverting a country's resources of labour and capital into uneconomic channels, thereby imposing a burden on the consumer out of proportion to the advantage conferred on the community. But in India, protection is granted in a very deliberate manner, after the thorough investigation of claims of an industry by the Tariff Board, which satisfies itself that the industry fulfils certain stringent conditions. While in no case is substantive protection granted without prior examination by the Tariff Board, cases have not been infrequent in which protection has been withheld by the Government, even when it has been recommended by the Tariff Board, or the degree of protection actually granted has been less than that proposed by the Tariff Board.[1] Protection is granted only to such industries as possess natural advantages, an abundant supply of raw materials, cheap power, a plentiful labour supply, and a large home market; and in regard to which there is a reasonable prospect of being eventually able to dispense with protection.[2] Protection is temporary and given for a short period, generally from three to seven years at a time This cautious and discriminating Indian policy of protection is unlikely to encourage industries, not reasonably assured of sound opportunities for success.[3] The degree of protection, again, is just sufficient

[1] Important instances are furnished by the cotton, silk, glass, woollen and sugar industries

[2] Sir Geoffrey Corbett in his statement before the Imperial Conference, 1930, described the various stages through which a claim to protection has to pass before it is established, and concluded 'In this way, we believe it is ensured that the burden on the consumer is as small as possible, and that the consumer has ample opportunity to express his views and assert his influence at every stage of the proceedings'—*Report of Proceedings*, November 1930, Cmd 3717, p 130 See also *Report of the Indian Fiscal Commission*, p 44 and J C Coyajee, *The Indian Fiscal Problem*, 1924, Lecture II on 'Discriminating Protection'

[3] Though protection may not assure success of an industry, unless properly used (see below p 166 n)

and no more than sufficient to equalize the fair selling price of the Indian product with the duty-paid landed import price of the foreign competing article This measure of 'scientific' protection is conceived in the best interests of the Indian consumer as of the Indian industry : the atmosphere of equal competition is favourable to that growing efficiency and continuous improvement which is essential for a speedy attainment by the industry of that condition 'when it would be able to stand the competitive challenge of its foreign rivals'. Precisely on account of these considerations, however, there should be limited room for granting preference to the products of a foreign industry, which is also protected at home.

There is, indeed, a conflict of aims between the policies of *discriminating* protection and preference As the Indian Delegation observed while discussing the case of steel—and these remarks apply with equal aptness to other cases—the introduction of preference could only be effected either by a lowering of the duty on British imports below the level determined upon by considerations of protection, or by raising the rate of duty on foreign imports fixed by requirements of discriminating protection. But 'to concede a preference by reducing these rates to a lower figure in favour of British steel would impair the protection intended by the Legislature to be afforded to the Indian industry, and to raise the duty on foreign steel to a higher point than was required in India's own interest would have been a grave departure from the fundamental principle of the policy of discriminating protection'.[1] Either the amount of protection would be rendered inadequate or excessive. Neither of these courses is desirable. Both of them are detrimental to the interests of the Indian industry and/or the Indian consumer. In general, preference would appear to be incompatible with discriminating protection, though special circumstances may sometimes justify its grant in the case of a protected industry.[2]

Schemes of industrial co-operation and 'complementary

[1] *Report*, p 33 They continue 'It would have meant that though, when an Indian industry was in question, the consumer ought not to be taxed beyond the extent necessary to give the protection needed, this could be done without objection when a British industry desired to be safeguarded against foreign competition'

[2] e g in the case of the steel industry in 1927 (see below Chapter IX, 4)

production' may more often than not result in defeating the logical end of a policy of protection and prolonging the period of the consumer's sacrifice, indeed in making protection a 'permanent burden on the community' which it was the foremost care of the Indian Fiscal Commission to avoid.

Besides, arrangements aimed at the division of the Indian market between the Indian industry and a single foreign industry are not likely to serve the best interests of the Indian consumer. In the absence of free competition between outside sources of supply, both the quality of satisfaction offered to the consumer and the price of such satisfaction may be affected to his detriment The former may deteriorate, the latter may be raised against him.[1]

Again, fine distinctions between competing and non-competing parts of an imported product, whose local production is receiving protection, are often an insufficient basis for according differential treatment to different portions of the imported supply. For the working of the price market is often complex, its ramifications are intricate, and competition works through indirect channels, defying the elaborate categories and minute classifications of trade by tariff officials.[2]

Reference may be made at this stage to certain fundamental considerations which have an important bearing on the formulation of a right commercial policy for India.

Some Fundamental Considerations

India is a vast sub-continent gifted with abundant and rich natural resources. She has a population one-fifth of the whole world, and therefore a supply of cheap and plentiful labour. The labour is no doubt lacking in skill and mastery of modern technique, but has a tradition of industry, and is capable, if trained, of acquiring the arts of machine manufacture. Everything considered, her resources and equipment form a sufficiently broad base upon which to rest a fiscal policy designed to promote the interests of her huge population. The volume, character and range of her resources are of such a nature that she can very appropriately form a unit in world co-operation.

[1] See below Chapter IX, 6, 'Industrial Co-operation' for the views on this aspect by the Indian Tariff Board on the Iron and Steel Industry, 1934

[2] On this point, see *Report of the Indian Tariff Board on the Cotton Textile Industry*, 1934, p 147

There is therefore little to recommend schemes of industrial co-operation or complementary production which might circumscribe the scope of her economic development and make more distant and difficult the full utilization of her economic possibilities.

Relative Backwardness of British Industry

Another reason advises caution against a wholesale extension of preferences to the products of a British industry, even if the producers of a particular line of goods in both countries find such arrangements to their mutual advantage: British industry since the War has lagged behind the industry of many other countries in efficiency of organization and technical equipment[1]

'Her whole history', wrote Professor Siegfried, referring to Lancashire, 'has been a continual adaptation from one decade to another, to meet the changing requirements of the world situation'[2] The root of the hardships of the export industries of the United Kingdom lies mainly in the fact that since the War they have been characterized by lack of mobility and adaptation.[3]

This leaves the case for a comprehensive system of *exclusive* co-operation with staple United Kingdom industries without strong rational support. Yet not unnaturally, the demands for co-operation are most insistent and pressing from precisely those United Kingdom industries like cotton and steel which have suffered most from the growth of local competition in India. The avowed end of such co-operation is to arrest the process of decline which has overtaken the old United Kingdom trades. The successful achievement of this end involves retarding the development of competitive Indian industries

[1] See for instance G D H Cole, *British Trade and Industry, Past and Present*, 1932, *Report of the Committee on Industry and Trade*, 1929, pp 179, 235, 297, A Loveday, *Britain and World Trade*, 1931, p 169, Siegfried, op cit, p 58

[2] *Post-War Britain*, 1924, p 110

[3] The Balfour Committee on Industry and Trade thought it 'abundantly clear that the first step towards putting British industry in a position to compete successfully in overseas markets is to subject their organization and equipment to a thorough process of reconditioning', and, it might be added, impart some measure of resilience to the whole economic system Recent improvements in British industry weaken but do not completely take away the force of this statement

There is here a clear conflict of interests. To ignore it is to overlook facts. The solicitude of the United Kingdom manufacturer to stay the long continued set-back to his trade can be easily appreciated. Nor is it difficult, however, to understand the eagerness of the Indian industrialist to extend and diversify the range of his output and to venture forth his capital and enterprise into new profitable channels.

Conclusion

The sum and substance of the case against Imperial industrial co-operation even were Imperial preference in general supported, may be put thus: to prefer United Kingdom imports to other imports of the products of an industry not protected in India is one thing; to continue to accord preference to United Kingdom imports when the corresponding Indian industry has received protection is quite a different affair. In the latter case the proper objective is to develop the productive capacity of the Indian industry to a point where it is able to meet all Indian requirements, within the shortest possible time, so as to minimize the burden of protection on the Indian consumer. That objective would ordinarily be compromised by the simultaneous admission of preference for United Kingdom products into the protective scheme, unless the requirements of discriminating protection as such advise a lower rate of duty on United Kingdom imports.

As has been observed above, there is a general form of economic co-operation between the United Kingdom and India to which exception may not be taken, and which is being achieved more and more in practice: the Indian demand for the products of new technique and the improved facilities of modern life, and for capital goods, is increasing, and the United Kingdom is increasingly directing her resources to meeting these new demands. This process may be accelerated to the mutual benefit of the United Kingdom and India.

International Cost Differences: the General Case for Differential Protective Duties Considered

The general argument for introducing preference in favour of United Kingdom goods into the Indian protective scheme may be stated thus in its essentials. costs of production of the

United Kingdom industry being higher than the costs of production of the foreign industry, a lower duty would afford adequate protection to the Indian industry against the dear goods of the United Kingdom than against the cheap goods of her foreign rivals.[1] To impose higher duties on United Kingdom goods than are necessary to equate their c.i.f. import prices with the fair selling price of similar goods produced in India would, besides rendering the amount of protection to the Indian industry excessive, add to the burden on the consumer of United Kingdom goods.

In appraising this argument it might be noted that the higher costs of production of United Kingdom goods could be made up broadly of two elements: (1) higher costs due to superior quality of the United Kingdom articles judged by all the relevant indices of efficiency of service, (2) higher costs of the United Kingdom than of foreign goods of like quality. Now a claim for a lower rate of duty on United Kingdom goods cannot be based on the ground that higher quality makes for higher costs of production. For the higher quality—if the consumer is the judge—should make as much for higher prices as for higher costs.

The second ground for lower duties on United Kingdom goods amounts in other and plainer terms to this, that the United Kingdom manufacturer is unable to place his goods in the market at competitive prices against the foreign manufacturer.

The differential treatment of the products of United Kingdom industry on the ground of higher costs has some justification from the point of view of industry. Indian industry is initially saved from excessive or inadequate protection against one or the other source of supply, such as would result if a uniform duty based on a comparison of foreign costs or United Kingdom costs alone, or some average of the two, with Indian costs, were imposed.

[1] Among the reasons for the reduction of India's imports from Great Britain after the War, Sir Geoffrey Corbett mentioned the following in his statement on behalf of the Indian Delegation before the Imperial Conference, 1930: 'For whatever reason—and I realize there may be many reasons—this gap (between the prices of exported raw materials and imported manufactures) tends to be wider in the case of British manufactures than in the case of foreign manufactures. And we are being driven to buy foreign because we cannot afford to buy British.'—*Report of Proceedings*, p. 129.

Against this possible advantage to Indian industry, however, has to be set the loss to Indian revenues caused by a preference to United Kingdom goods not compensated by a corresponding reduction of the burden on the consumer, for the remission of duty on United Kingdom goods only serves to compensate the preferred producer for his higher costs and is not translated into lower prices to the benefit of the consumer.

Again, in so far as costs of production of United Kingdom industry are unnecessarily high and could be reduced with proper rationalization, this sacrifice of Indian revenues only means a subsidy to inefficiency, which necessarily arrests the progress of reorganization and improvement.[1]

The general case against differential protective duties has been stated above. When could lower duties on United Kingdom than on foreign goods be properly combined with protection for an Indian industry?

The Real Case

A real case would exist for different scales of protective duties against imports of a commodity from different sources if the severally derived imports constituted separate commodities for practical purposes, which could be identified with separate categories of home output: the extent of protection in each case would be determined on a comparison of the fair selling price of the home product with the duty-free price of comparable imports.

Differentiation would thus be based on a difference in the kind or class of imports happening to coincide with a difference in the source of imports. The iron and steel duties in 1927 furnish an instance in point. But it is usually hard to come by cases where imports of a commodity from different sources fall into practically non-competing groups

[1] For the higher costs of the United Kingdom producer may be due to his reluctance to scrap obsolete plant or deficiency of skill to adopt or adapt new inventions, to improper co-ordination of efforts and resources in production and marketing, or to ineffective organization, or other causes 'There was a good deal of truth in the statement made by a Japanese spinner to the effect that Lancashire was trying to make India pay the price of Lancashire's inefficiency It is the efficiency of the Japanese that has made them such formidable competitors'—*Manchester Guardian Commercial*, Annual Review, 1 February 1935, p 80

A good deal could also be said about the cost to the Indian consumer of the relative inefficiency of the Indian cotton industry.

Cases of partial or ineffective competition between imports differently derived are not so uncommon. They may appear to afford a wide, but indeed provide a weak and insufficient, basis for tariff discrimination Only the obvious absence or substantial lack of competition among two or more outside sources of supply could completely justify differential duties from the point of view of considerations of discriminating protection

The cases of differential protective duties in relation to cotton and steel are considered in more detail in the next chapter

CHAPTER IX

PREFERENCE WITHIN PROTECTION: COTTON AND STEEL

IMPERIAL industrial co-operation has found partial practical expression in India in the form of differential protective duties, and may thus aptly be termed 'preference within protection'. As such it was first introduced into the Indian tariff by the Iron and Steel Industry (Protection) Act, 1927, and the Cotton Textile Industry (Protection) Act, 1930. It was granted a fresh lease of life by two later Acts: the Indian Tariff (Textile Protection) Amendment Act, 1934, and the Iron and Steel Duties Act, 1934.

Without giving a detailed narrative of facts, the salient features in the working of the protective *cum* preferential schemes in relation to the two Indian industries may here be briefly reviewed.

1. INTRODUCTION OF DIFFERENTIAL PROTECTIVE DUTIES ON COTTON: VIEWS OF THE TARIFF BOARD

Introduction of Differential Protective Duties, 1930

By the Cotton Textile Industry (Protection) Act, 1930, the revenue duty on piecegoods was raised from 11 to 15 per cent, and in addition a protective duty of 5 per cent *ad valorem* with a minimum of 3½ annas a pound on 'plain grey goods', was imposed for three years on all cotton piecegoods imported from countries other than the United Kingdom.

The exclusion from the scope of the protective duty of goods imported from the United Kingdom was justified chiefly on three grounds: firstly, that the extent of direct competition between the products of the Indian industry and imports from the United Kingdom was relatively small; secondly, that the great bulk of the goods imported from the United Kingdom were of a kind which could not be made from Indian cotton; and, thirdly, that the grant of assistance to the Indian

industry for the manufacture of the finer varieties of goods could not be considered except in connexion with the question of substantive protection[1]

The Cotton Tariff Board, 1932, on Mr Hardy's Conclusions

The conclusions of the Government in regard to the extent of competition between United Kingdom and Indian goods were based on the results of the investigations in 1929 of Mr G. S Hardy, Collector of Customs, Calcutta. They were subjected to close scrutiny by the Tariff Board on the Cotton Textile Industry, 1932. The Board found that both in respect of bleached goods and bordered grey goods—two most important lines of imports from the United Kingdom—Mr Hardy and the Government of India had considerably under-estimated the extent of competition from the United Kingdom, either because they underestimated the extent of comparable Indian output (of bleached goods), or because they under-estimated the extent of comparable United Kingdom imports (of bordered grey goods).[2]

Protection Necessary Against the United Kingdom

The Tariff Board was of the view that protection was needed as much against the United Kingdom as against other countries. It did not find it possible to determine separately the extent of protection necessary against imports from different sources. There was, firstly, the extreme difficulty of estimating the degree of direct competition from particular countries on the basis of the data available; and, secondly, indirect competition in the form of substitution operated over a very wide range of similar, if not identical, articles derived from different sources Moreover, the Board considered that if the scheme of protection were to succeed in its object it was as necessary to encourage the production in India of goods of finer counts as of medium and coarse counts.[3]

[1] *Report of the Indian Tariff Board on the Cotton Textile Industry*, p 143

[2] ibid, pp 144-5

[3] 'If it is granted that there is a case for protecting medium and coarse counts, which represent 80 per cent of the aggregate Indian market, then, to the extent that the production of finer counts will help to reduce the cost of manufacturing medium and coarse counts in the same mills, the extension of protection to the former must be a logical result of granting protection to the latter, and a necessary step towards shortening the period of protection and reducing the burden on the country'—ibid, p 109

Again, the production of finer counts, it was hoped, would encourage the investigation of possibilities of growing superior grades of cotton in India.

Uniform Minimum Specific Duties

The Board recommended uniform minimum specific duties on goods imported from all countries including the United Kingdom as follows:

Plain grey	5 annas per lb.
Bordered grey	5 annas 3 pies per lb.
White bleached	6 annas per lb.
Coloured, dyed, or printed goods	6 annas 4 pies per lb.

These rates were calculated according to the difference between the costs or fair selling price of the Indian industry and the net price realized by the mills, mainly in respect of medium counts, of which imports from the United Kingdom were said to be not inconsiderable.

The specific duties as minimum protective duties uniformly applicable to all imports were to be outside the scope of any preference that might be agreed to be granted. For that purpose the use of alternative *ad valorem* revenue duties was recommended.

Probable Effect of Tariff Board Proposals

The *Report* of the Tariff Board signed in November 1932, was published in March 1934, without any resolution thereon: its findings had by then been superseded by events occurring in the meantime.

Whatever their effects in the direction of securing the development of the Indian industry might have been, it was authoritatively believed that 'the recommendations of the Board, if adopted, would have been most damaging to Lancashire interests'[1] Therefore, Sir Thomas Ainscough expressed the opinion that the two Cotton Agreements (see below), 'by rendering inapplicable the proposals of the Tariff Board, had prevented a further serious blow to British textile trade'.[2]

[1] Department of Overseas Trade · *Report on Conditions and Prospects of United Kingdom Trade in India*, 1934, p 68

[2] ibid, p 75

2. Differential Protective Duties: Cotton Trade Agreements

The Indo-Japanese Agreement, 1934 and 1937

The two most important events which led to the supersession of the findings of the Tariff Board were the conclusion towards the end of 1933 of the Indo-Japanese Agreement and the Bombay-Lancashire Agreement, otherwise known as the Mody-Lees Pact It is not possible to describe in detail here the circumstances of origin or the provisions of the former Agreement: it comprised a Treaty and a Protocol; the Treaty provided for the maintenance of mutual most-favoured-nation treatment, the principle underlying the Protocol was the linking of imports of Japanese piecegoods on a sliding quota basis with exports of Indian raw cotton[1] The duty on Japanese cotton piecegoods was also reduced from 75 per cent to 50 per cent *ad valorem*. The Protocol concluded on 12 July 1934, was to expire on 31 March 1937. A new Protocol was initialled by the Delegates of the Governments of India and Japan on 12 April 1937. It substantially reproduced the terms of the previous Protocol, though it provided for a smaller quota of piecegoods imports in view of the separation of Burma and the conclusion of a separate Agreement with that country.[2]

The Agreement brought into prominence a factor which sets a limit on the extent to which the Indian industry can be allowed to satisfy the Indian market—the necessity to secure an outlet for the huge exports of Indian raw cotton The Indian cotton mill industry takes normally only about two-fifths of the cotton crop: for nearly one-half of that crop, a market has to be found overseas[3] Indeed, the proportion of short staple cotton which has normally to be exported is much higher—over two-thirds Even a speedy extension of the domestic industry could not obviate the need for external

[1] 1 million to 1½ million bales of raw cotton against 325 million to 400 million yards of Japanese piecegoods, a variation of 10,000 bales of cotton to be adjusted against 1½ million yards of piecegoods, between the above limits

[2] 1 million bales could now be exported against 283 million yards of piecegoods, the maximum of 1½ million bales being exportable against 358 million yards

[3] *Report of the Special Tariff Board on the Cotton Textile Industry*, 1936, p 44. The rest of the raw cotton is used up in the hand-looms

dependence altogether, and the delicate problem of adjustment of the interests of the Indian cultivator and manufacturer will continue to complicate the situation for at least a good time to come.

The Bombay-Lancashire Pact

On 14 September 1933, a British Textile mission including representatives of the artificial silk industry and headed by Sir William Clare Lees arrived in Bombay. On 28 October, the mission departed for England, having negotiated an agreement with the Millowners' Association, Bombay, which had Mr (now Sir) H. P. Mody as chairman. The Agreement—a precursor of the general understanding embodied in the Supplementary Indo-British Trade Agreement already considered—reiterated the right of India to protect the Indian industry even against the United Kingdom, but recognized that a higher level of protection was needed against other countries than the United Kingdom. It provided for the stabilization of the position in regard to the tariff on imports of cotton piecegoods from the United Kingdom, after the removal of the revenue surcharge, at 20 per cent *ad valorem*; for a reduction of the duty on British yarn from 6¼ per cent to 5 per cent *ad valorem* with a minimum specific duty of 1¼ annas per lb. against the general duty of 1⅞ annas per lb.;[1] for a reduction in the duty on pure artificial silk fabrics from 50 per cent to 30 per cent *ad valorem* or 4 annas to 2 annas per sq. yard, and on mixture fabrics from 35 per cent or 2 annas 3 pies per sq. yard to 30 per cent or 2 annas per sq. yard. Besides, the Agreement arranged for the extension to Indian goods of any advantages secured for British goods in Empire and other overseas markets, as well as for India's participation in any quota allocated to the United Kingdom. Finally, it provided for effective action being taken to popularize and promote the use of Indian cotton in the United Kingdom. The understanding was limited in its duration to the period ending 31 December 1935.

The Indo-Japanese Agreement and the Mody-Lees Pact provided the complete framework for the new schedule of the

[1] The agreement assumed the continuance of the cotton duty at the existing level of half an anna per pound

cotton tariff and were substantially incorporated[1] in the Indian Tariff (Textile Protection) Amendment Act, 1934, which was passed in April and became effective from 1 May of that year. The Act thus included considerable differential tariff margins in favour of the United Kingdom and gave protection to the Indian industry for a period of five years until 31 March 1939.

Imperial Industrial Co-operation

It must be fully appreciated that in incorporating the provisions of the Bombay-Lancashire Agreement in the Act of 1934, the Government were only trying to implement the principles of Imperial industrial co-operation in their tariff policy.[2]

But this action of the Government was subjected to criticism in the Assembly on the ground that the Agreement had the support of only a section of the Indian industry, however substantial, and was opposed by important parts of it.[3]

Ad Valorem versus Specific Duties

An important recommendation of the Tariff Board of 1932 which was ignored in the Act of 1934 related to the imposition of minimum specific duties for protection: cotton piece-goods other than plain greys have continued subject only to *ad valorem* duties. Now the amount of protection received by an industry under a system of *ad valorem* duties tends to diminish with a fall in the prices of imported goods and to increase with a rise in prices. Thus it alternately tends to become inadequate for the industry and excessively burdensome for the consumer. From the point of view alike of the industry and of the consumer specific duties appear to constitute a more suitable form of protection than *ad valorem* duties.[4]

[1] The alternative specific duty on counts above 50's was removed.

[2] This is clear from a letter dated 25 October 1933, from the Indian Commerce Member to the Chairman of the United Kingdom Delegation, just before the latter's departure from Bombay for England (*Report on Conditions and Prospects of United Kingdom Trade in India*, Appendix III, p. 249).

[3] In particular by the Ahmadabad Millowners' Association, and the Federation of Indian Chambers of Commerce. For another thing, that part of the industry which opposed the pact was more vitally affected by competition from Lancashire than the section that favoured it. See *Report of the Special Tariff Board on the Cotton Textile Industry*, p. 32, for evidence as to the 'lead taken by Ahmadabad in the production of finer qualities of cloth'.

[4] *Ad valorem* duties are no doubt a more equitable form of taxation for revenue purposes, since their incidence is higher in a period of rising prices and lower in a period of falling prices.

Mr G. S. Hardy had found that a change to a system of specific duties assessed according to weight would on the whole be undesirable, because it would lead to a disturbance of the relative incidence of customs duties on different classes of goods. He was not, however, primarily investigating the claim of the cotton industry to protection. The Tariff Board of 1932 which was appointed definitely to inquire into this claim was of the view that the disturbance of incidence would be precisely of a kind as to safeguard the scheme of protection: 'the most noticeable direction in which disturbance will be caused on this method of assessment is that goods belonging to groups of lower counts will be liable to proportionately higher rates'.[1] Precisely these goods constituted the bulk of the Indian production, in which the need for protection was greatest.[2] Moreover, in the coarser classes of goods, particularly of counts 20 and below, internal competition was already so strong that an increase in the import duty would not result in any corresponding increase in prices.

The Indian Tariff (Textile Protection) Amendment Act, 1934, granted protection to the Indian cotton industry for a period of five years until 31 March 1939. But the tariff rates on British goods were to be decided after the expiry of the Bombay-Lancashire Agreement on 31 December 1935, on a review of existing conditions and in the light of experience gained.[3] This review was entrusted to a Special Tariff Board appointed on 10 September 1935.

Among other things, the Board recommended a duty of

[1] *Report of the Indian Tariff Board on the Cotton Textile Industry*, pp 137-8

[2] 'Simple specific duties are *regressive*—i e they weigh more heavily upon the cheaper varieties of qualities than upon the dearer ones—e g the proportion of the total price represented by the tax is greater in the case of cheap tobacco than in the case of more expensive tobaccos When a purely revenue duty is being considered, it is clear that the maxim that taxation should be based on ability to pay is being infringed When the duty is intended to be protective this regressive effect may or may not be considered desirable It is clear that the flat rate has the effect of protecting the less fine qualities *more* than the finer qualities, but judgement on this result depends on the object for which the duty was imposed —(for instance) a country whose textile industries are just beginning to develop may find it desirable to levy a higher rate of duty on the inferior qualities, and this a uniform duty effects'—T E Gregory, *Tariffs A Study in Method*, 1921, pp 119-20 A variety of considerations are involved for arriving at a decision in a particular case See ibid, p 116, *Report of the Indian Fiscal Commission*, p 121.

[3] cf Speech of Sir Joseph Bhore on his motion for reference of the Bill of 1934 to the Select Committee, *Legislative Assembly Debates*, 13 March 1934

20 per cent *ad valorem*, with a minimum specific duty of $3\frac{1}{2}$ annas per lb. on plain grey goods, and 20 per cent *ad valorem* on all other goods including bordered grey, bleached and coloured (excluding printed) goods. The *Report* of the Board was published together with the decision of the Government of India to give immediate effect to its recommendations by a Resolution dated 25 June 1936.[1]

3 Differential Protective Duties: The Balance Sheet in Regard to Cotton

(*a*) *Costs*

Bisection of Protective Scheme

In considering the above it has to be remarked that a piecemeal treatment of the tariff relating to different sections of imported supply of the same class of goods is not likely to secure the best application of the principles of discriminating protection. The scheme of protection should be a consistently planned and co-ordinated whole, with a clearly articulated relation between its parts. The problem of affording protection to an industry cannot properly be dealt with in all its bearings, nor can the degree of adequate protection be correctly ascertained, when the closely related aspects of *one* question are bisected and treated in isolation. It was particularly injudicious to *bifurcate* the question of protection, and not to treat it as a whole, because the Tariff Board of 1932 which had been specially appointed to investigate the claim of the Indian cotton industry to substantive protection had recommended a system of minimum specific duties *uniformly* applicable to all imports as the very basis of their protective scheme. This was, moreover, the finding of the Tariff Board on a definite reference to it of the question whether the *same* degree of protection was required against imports from the United Kingdom as from other countries. It is, indeed, an interesting fact that the main outlines of the scheme of protection of such an important industry as the cotton industry were never at one time set out by any Tariff Board.

Again, it appears from the above survey that protection has

[1] See *Indian Trade Journal*, 16 July 1936

been extended by small periods of two years or so. Such a procedure in giving protection is not likely to accomplish its purpose effectively. No departure from the principles of discriminating protection is here advised, but only the display of a little more courage and foresight in their application. Too little or too brief protection may be almost as bad as too much or too lengthy protection. A judicious or discriminating measure of protection is neither excessive nor inadequate and given in instalments of time which enable the industry to carry out with confidence schemes of reorganization and fresh development, in accordance with the requirements and possibilities of each case.[1]

Loss of Revenue

Since the end of August 1932, when the duty on cotton piecegoods of non-British manufacture was raised to 50 per cent, while the duty on British goods remained at 25 per cent, the United Kingdom has enjoyed a substantial preference of 50 per cent in duty. How far has this preference succeeded in extending the United Kingdom share of the Indian market?

The proportion of Indian imports derived from the United Kingdom declined from 50 per cent to 44 per cent between 1931-2 and 1936-7, while that of Japan, practically her only competitor, increased appreciably from 45 per cent to 55 per cent between the two years. The relative retreat of the United Kingdom before the advance of Japan is most evident in coloured and grey goods; in the bleached goods trade the United Kingdom, the predominant supplier, has well maintained her relative share of imports

It appears thus that the wide difference in duties did not

[1] Indeed, it would be an advantage to extend the scope of conditions that must be fulfilled by an industry to substantiate its claims for the grant or continuance of protection at least in one direction the industry must set its house in order, modernize its technique, rationalize its methods, and reorganize itself generally so as to reduce its costs, and add to its receipts by greater economy and increased efficiency There is much room for improvement in respect of the cotton industry along lines of collective buying of raw material and selling of finished goods, standardizing quality, scrapping obsolete plant and, in general, by financial planning The industry would generally be less of a burden on the consumer if full efforts were made to this end Sir George Schuster in his budget speech of 28 February 1930, promised to examine the practicability of Government intervention for securing the object But unfortunately no steps were later taken to ensure that protection was well used.

enable the United Kingdom to enlarge her share of the Indian market, or even to prevent a decline in that share This suggests that the difference in duties has corresponded to a large extent to differences in costs of production in the United Kingdom and Japan. But differences in cost of production of the imported product are irrelevant to the determination of the requisite degree of protection separately against either source so long as imports from one compete with the other for the satisfaction of the same demand. The case for differential duties from the point of view of considerations of discriminating protection must rest on the basis of lack of effective competition between goods imported from the United Kingdom and Japan: as such it appears rather weak. The lower duties in the case of United Kingdom cotton goods are thus partly at least preferential in character An important ground for their continuance must be found in the reciprocal advantages offered by the United Kingdom in respect of exports of Indian raw cotton and cotton manufactures abroad. In so far as the lower duties on United Kingdom goods are preferential in nature, they involve a cost in the form of a loss of revenue without a corresponding reduction of burden on the consumer. This loss has been incurred in respect of at least a part of the preference of 30 per cent on roughly half the total imports of cotton piecegoods derived from United Kingdom, the total imports being valued at Rs 17 crores in 1934-5, Rs 16 crores in 1935-6 and Rs 13 crores in 1936-7:[1] at a modest estimate this loss may be put at a crore of rupees, more or less, in each of these three years.

(b) *Benefits*

We may now consider the other side of the balance sheet, the advantage offered to India in return for the grant of differential tariff margins to the United Kingdom manufacturer of cotton and artificial silk fabrics.[2]

[1] Besides, imports of cotton twist and yarn from the United Kingdom also enjoyed a differential advantage in protective duty They were taxed at 5 per cent *ad valorem* or 1¼ annas per lb against 6¼ per cent *ad valorem* or 1⅞ annas per lb, whichever was higher, on non-British imports for counts below 50's, and 5 per cent *ad valorem* against 6¼ per cent *ad valorem*, for counts above 50's

[2] The value to the United Kingdom of the latter concession is, of course, small for she supplies only 3 per cent of the Indian market, which is dominated almost completely by Japan.

Encouragement of the Use of Indian Raw Cotton

By Article 8 of the United Kingdom-India Agreement concluded at Ottawa, His Majesty's Government undertook to co-operate in any practicable scheme that might be agreed between the manufacturing, trading and producing interests in the United Kingdom and India for promoting, whether by research, propaganda or improved marketing, the greater use of Indian cotton in the United Kingdom. This obligation was *repeated* in the Supplementary Indo-British Agreement and the Mody-Lees Pact.

The United Kingdom could not encourage the consumption of Indian cotton by means of a differential duty, minimum quotas or other similar methods, because cotton is a raw material of United Kingdom industry, the predominant source of supply of which has been outside the Empire, namely the United States.

In lieu of the tariff and the quota, therefore, propaganda and research have been employed to organize a simultaneous and complementary development of a commercial demand and commercial supply of Indian cotton. With this end, the Indian Cotton Inquiry Committee (later the Lancashire Indian Cotton Committee) was established by the President of the Board of Trade in the autumn of 1932 in pursuance of Article 8 of the United Kingdom-India Agreement. The *Report* of the Lancashire Mission, already referred to, on their return in November 1933, gave a stimulus to the activities of this Committee. It was assigned an active and significant part in 'a policy of economic reciprocity,[1] as particularly applied to all the interests associated with the cotton industry, from raw cotton to the finished product in both countries'.[2]

The principal function of the Committee has been to engage in various forms of propagandist activity with a view to encouraging cotton spinners, manufacturers and merchants to favour the use of Indian cottons. But an important part of its activities has consisted in overcoming the technical (as apart from the commercial) obstacles which lie in the way of the greater use of Indian cotton by spinners. The two annual reports for 1934 and 1935 leave no doubt in one's

[1] Only another name for industrial co-operation
[2] *First Annual Report of the Lancashire Indian Cotton Committee*, 1934, p 7

mind that the Committee has made a sincere and earnest attempt—what by organizing exhibits of finished products, constant circularization of spinners and manufacturers, and various forms of printed propaganda, and by the investigations of technical difficulties at the Shirley Institute—to develop and sustain a permanently higher level of demand for Indian cotton.

For a more precise appraisal of the results of the Committee's efforts it is necessary to turn to the evidence of statistics.

TABLE XLIII

Exports of Raw Cotton from India (1,000 tons)			Imports of Raw Cotton into the United Kingdom (1,000 tons)		
	United Kingdom	Total		India	Total
1929-30	48 (7%)	727	1929	47 (7%)	687
1930-1	50 (7%)	701	1930	54 (10%)	542
1931-2	30 (7%)	423	1931	47 (10%)	487
1932-3	31 (9%)	371	1932	24 (4%)	561
1933-4	63 (12%)	512	1933	49 (8%)	627
1934-5	63 (10%)	626	1934	69 (12%)	561
1935-6	81 (13%)	607	1935	74 (13%)	564
1936-7	107 (14%)	762	1936	104 (15%)	691
1937-8	71 (14%)	488	1937	103 (14%)	737

The above figures show that the fall in exports to the United Kingdom was less than in proportion to the total fall up to 1932-3, and their subsequent increase has been more than in proportion to the total increase. The relative share of the United Kingdom, therefore, doubled during six years, increasing from 7 to 14 per cent The United Kingdom statistics similarly show a marked and progressive increase in the imports from India both absolutely and relatively to total imports

As regards the causes of the relative as well as absolute increase of United Kingdom imports from India, 'it is impossible to say to what extent this striking increase can be ascribed to parities obtaining throughout the season and to what extent to the activities of the Committee The favourable parity has undoubtedly been a helpful factor but

thanks to the work of the Committee, an increase in consumption has been achieved much greater than could have been occasioned by parity alone, whilst conditions have been brought about which will maintain consumption at a higher level permanently.'[1]

The following figures of the comparative consumption of Indian cotton show how important the price and parity movements have been as a cause of the relatively larger consumption of Indian cotton in the United Kingdom.

TABLE XLIV

Relative Consumption of Indian Cotton[2]

(Quantity in millions of bales)

	1932-3	1933-4	1934-5	1935-6	1936-7
(1) United Kingdom consumption of Indian cotton	·13	·23	34	·39	43
(2) United Kingdom consumption of all cottons	2 25	2 47	2·51	2·73	2 85
(3) World (excluding Indian) consumption of Indian cotton	1·95	2·54	3 04	2·77	3·4
(4) World (excluding Indian) consumption of all cottons	21 72	22 6	21·50	22 38	26 19
(A) (1) as percentage of (2)	3	4 9	6 1	7 2	7 2
(B) (1) as percentage of (3)	5·6	9·5	13·6	14·1	15
(C) (3) as percentage of (4)	9	11 3	13	14 2	12·4

(B) in this table is equivalent to, though not necessarily identical with, the United Kingdom share of Indian exports, while (A) is analogous to the Indian share of United Kingdom imports. Now the increasing proportion of Indian cotton of the world consumption of all cottons evident from (C) shows that the price consideration was a factor of decisive importance, though other factors also assisted the tendency to increase in India's share of United Kingdom imports of cotton

There is another reflection of a different character which may be mentioned at this point. When Lancashire has considerably enlarged her intake of Indian cotton, her claim for lower duties on goods imported into India will rest on a

[1] *First Annual Report of the Lancashire Indian Cotton Committee*, p 12

[2] Calculated from figures in *Bombay Cotton Annual*, 1937, pp. 166, 202.

surer economic foundation than hitherto, and will derive additional strength from the tendency of Japan to develop alternative sources of supply.

Indian Cotton Manufactures and Colonial Markets

The other benefit offered to India as a result of the Bombay-Lancashire Pact, is the extension to Indian goods of any advantages which might be arranged for British goods in the other Empire countries.

The value of this concession has been appreciable relatively to the small volume of trade involved, as is clear from the following tables showing the relative position of the United Kingdom, Japan and India in respect of imports of cotton piecegoods into (*a*) the British East African markets (*b*) Ceylon and (*c*) British Malaya.

TABLE XLV

Imports of Cotton Piecegoods into the Colonial Empire

Into	Ceylon (1,000,000 yds)			British Malaya (£1,000)			British East Africa[1] (1,000,000 yds)		
From	United Kingdom	Japan	India	United Kingdom	Japan	India	United Kingdom	Japan	India
1931	16	23 7	12 2	626	669	319	11 4	39·1	10 3
1932	15 8	40 4	11 2	1,048	954	292	12 7	44 1	6 4
1933	9 6	41·4	9	735	1,346	192	11 8	55 1	3 5
1934	11 8	52 7	12 3	795	1,341	185	9 9	55 8	3 5
1935	28 6	6 5	19 5	883	747	235	14	68 7	6 2
1936	31 6	10 3	23 6	938	712	292	11 8	71 8	6 4

The amazing progress of Japan as well as the disastrous decline in the position of the United Kingdom and India in Colonial markets until 1934 is strikingly brought out in the above table.

The limitation of Japanese competition by the imposition of quotas during May to July 1934,[2] has helped India to regain

[1] Zanzibar, Nyasaland and Somaliland Protectorates, Kenya and Uganda, Mauritius and Seychelles

[2] See *Manchester Guardian Commercial*, 3 October 1935, for a review of the working of the quota system The quotas, nominally applied to all foreign countries, were specially restrictive of Japanese trade, because they were based on average imports during 1927-31, when Japan was not a serious competitor of the United Kingdom In East Africa the quotas were combined with specific duties Elsewhere the duties were generally *ad valorem*.

much of her lost trade in these markets as well as to secure an advance over her earlier position in Ceylon, the principal market for Indian cotton goods among the British Colonies.

4. Introduction of Differential Protective Duties: Steel

Steel is the second great Indian industry, protection to which has been extended subject to an important measure of preference to the United Kingdom.

A system of differential duties was first introduced on the recommendation of the Tariff Board of 1926. Such a system,[1] it was considered, would safeguard the scheme of protection against disturbances resulting from large variations in the prices and imports of continental steel, such as had undermined the protection given by uniform duties in 1924. It was, moreover, advised by the need to prevent an undue rise in the price of British standard steel and therefore in the costs of important public works, of factory construction, and of the fabricated steel industry, which might retard industrial development. Thus on strictly economic grounds a system of differential duties was considered by the Tariff Board 'desirable in the interests of India, for the adequate protection of Indian industries, and for a fair adjustment of the burden involved'.[2] The recommendations of the Board were embodied in the Steel Industry (Protection) Act of 1927.

5. Extension of Differential Protective Duties: Steel

Supplementary (to Ottawa) Iron and Steel Agreement: Genesis

The system of differential duties was extended by the conclusion in September 1932, in London, of the Supplementary (to Ottawa) Agreement in regard to Iron and Steel

[1] A set of basic duties applicable to all imports and additional duties, over and above the basic duties, to be imposed on continental imports according to variations in import prices

[2] *Report of the Indian Tariff Board on the Iron and Steel Industry*, 1927, p 58

In view of the declining demand of Japan for Indian pig-iron,[1] the need for enlarging alternative outlets appeared urgent to the Indian Delegation. The Delegation thought, moreover, that the export of semi-finished steel from India to Great Britain, which hitherto 'could only be effected at sacrificial prices', became practicable, because of the complete change in position made by the imposition of the new duties on foreign steel under the Import Duties Act. 'The opportunity was now offered to Indian steel to replace a large proportion of the sheet bar previously imported from the Continent . . . if agreement could be reached with the British Government, Indian pig-iron and steel would replace much of the continental material.'[2]

The Delegation were of the view that whatever advantage may have accrued to the United Kingdom from the differential duties on cotton and steel goods in the Indian tariff was purely incidental.[3] They expressly disavowed any wish to make those rates a counter in bargaining[4] It was necessary, therefore, to offer an additional advantage to secure the opportunities that lay in the United Kingdom market. The Delegation held the considered view that the protected classes of steel could not be touched. 'The only class of steel in respect of which an arrangement satisfactory to both parties could be reached' was found to be galvanized sheet[5]

[1] Exports to Japan were reduced from the peak point of 353,000 tons in 1928-9, to 319,000, 160,000 and 188,000 tons respectively during the three years following

[2] *Report of the Indian Delegation*, p 32

[3] They reiterate this idea in paragraphs 14, 15, 29, 39, 76 and 99 of their *Report*

[4] 'These rates could not, we were satisfied, become the subject of bargaining between ourselves and the British Delegation' (p 12), although 'the differences in the rates of duty had in fact led to the importation of a higher percentage of British steel' (p 33)

[5] Though galvanized sheet, too, was a protected class of steel ! 'The importance of the trade in galvanized sheet to the British iron and steel industry may be gauged from the fact that in 1927-8 the value of galvanized sheet accounted for half the value of the total imports of British steel into India, and even in 1931-2 it was still 30 per cent of the value, but between these two years the value of the imports of British galvanized sheet had fallen from Rs 7 2 crores to Rs 1·03 crores It will be evident from these figures how gravely the new competition from Belgium had affected the British industry, more especially because it became intense at a time when demand was declining and prices were falling. Here, if anywhere, measures calculated to bring relief—provided always they were consistent with the interests of India—were most likely to be of value'—ibid, p 31.

Provisions of the Iron and Steel Agreement

The arrangements in regard to duties on galvanized sheet in the Indian tariff, and other matters which would satisfy the British Government were as follows:

(1) Rs. 30 a ton on sheet made in the United Kingdom from Indian sheet bar; (2) Rs 53 a ton on sheet made in the United Kingdom from other sheet bar; (3) Rs. 83¾ a ton on sheet not made in the United Kingdom. Prompt and effective action was to be taken by the imposition of an additional duty to maintain prices in the event of a reduction in the price at which non-British sheets were imported. Each Government was to remain at liberty to check an unnecessary increase in prices against the consumer by a combination of manufacturers in both countries.[1]

This scheme of arrangements was embodied in an Agreement,[2] which came into operation from 1 January 1933, and was to remain in force until the results of the next statutory inquiry into the Iron and Steel Industry in India were enforced.[3]

Outlet for Indian Sheet Bar

The difference of Rs. 30-12-0 between the duty on British sheet not made from Indian bar and other (continental) sheet was the difference between the lowest price which the continental manufacturer had yet quoted, and the lowest price which the British manufacturer could reasonably accept. The further difference of Rs. 23 a ton between the United Kingdom sheets made of Indian bar and of other bars, was definitely linked with the provision of an increased market for Indian sheet bar in the United Kingdom.[4]

The Tariff Board on the Supplementary Agreement

The Agreement was reviewed after hardly a year's working by the Tariff Board appointed on 26 August 1933 to conduct

[1] The Delegation suggested arrangements to check an unnecessary rise of prices (*Report*, p 36).

[2] The Agreement was concluded by an exchange of letters both dated 22 September 1932, between Sir George Rainy, Delegate for India to the Imperial Economic Conference, 1932, and Sir Horace Wilson, Chief Industrial Adviser to His Majesty's Government, in the Board of Trade, London

[3] 1 November 1934.

[4] See *Report*, pp. 35-7.

the statutory inquiry to re-examine the measure of protection for various classes of Indian steel, laid down by the Steel Industry (Protection) Act of 1927 It is not necessary to refer in detail to the Board's conclusions on the working of the Agreement.[1] Suffice it to say that by then conditions had greatly altered since 1932. Whatever justification had existed for 'the *prima facie* uneconomic procedure of sending steel across the world to be converted and returned in the shape of finished goods'[2] no longer remained to the same extent. The Tata Company had greatly extended its capacity for the production of sheets, and the growing re-rolling industry provided another widening source of demand The need for finding an outlet for Indian semi-finished steel had therefore ceased to press. On the other hand, too, the representatives of the British industry had declined to be a party any longer to a wasteful and unsound arrangement. It had, accordingly, to be scrapped.

Continuance of 'Preference within Protection' for Galvanized Sheet

The Tariff Board, however, retained the system of differential duties in its proposals for the protective duties on galvanized sheet It argued that that system as embodied in the Steel Industry (Protection) Act, 1927, had worked quite smoothly and it saw, therefore, no reason to consider any change in this[3]

The Tariff Board used much the same method as the Ottawa delegation adopted for fixing the duties on sheet imported from the United Kingdom and the Continent. The fair selling price for port of galvanized sheet in India was estimated by it at Rs. 170 a ton. The measure of protection recommended for the Indian industry against the United Kingdom and continental imports respectively was Rs 10 and Rs 40 a ton, on the basis of a landed price without duty equal to Rs. 160 a ton for the United Kingdom sheet, and Rs 130 a ton for continental sheet.

[1] See *Report of the Indian Tariff Board on the Iron and Steel Industry*, 1934, p 17

[2] Ibid, p 19

[3] The Board apparently did not notice that differential duties were never applied to galvanized sheet by the Act of 1927. nor were they recommended by the Tariff Board of 1930, which specially investigated the case of galvanized sheet They were introduced for the first time as part of the Steel Agreement supplementary to the Ottawa Agreement, concluded in London.

Under ordinary conditions, the Board explains, it would have been inclined in estimating the measure of protection to adopt the method which it *generally* used, namely to estimate the current market prices of imports, in this case by allowing for the variation in the price of spelter since the earlier half of 1932.[1] On this basis, 'the United Kingdom prices would be almost the same as continental prices and there would be no scope for differential duties': a uniform rate of Rs. 40 per ton may have been applied to all imported sheets. Under ordinary conditions, of course, the Board would have been guided solely by the principles of discriminating protection. With a view, however, to maintaining as far as possible, the Ottawa 'principle of reciprocity', the Tariff Board recommended a lowering of the duty on British sheet to Rs. 10 per ton, Rs. 30 per ton of sheet being 'the preference granted under our proposals on galvanized sheet'.[2]

Reciprocity versus Discriminating Protection

Now, however desirable it might be to maintain the principle of reciprocity, two rates so different in amount as that which would have been ordinarily adopted by the Tariff Board, namely Rs. 40 a ton, and that deducible from the cost figure of the Indian Delegation, i.e. Rs. 10 a ton, could not both be equally suitable measures of protection for the Indian industry. Apparently, considerations of reciprocity outweighed the requirements of discriminating protection. The Board, however, sought to give the British manufacturer a 'definite advantage', 'consistently with the interests of the Indian industry'.

Objections to the Equalization Principle of Tariff-making

As has been observed in the last chapter, the principle of equalizing costs of production, i.e. of equalizing the fair selling price in India with the 'reasonable' costs of the British

[1] One important reason for adopting such a procedure would probably have been that 'in British prices (of steel products other than galvanized sheet) there had been little variation in the past few years'—*Report of the Indian Tariff Board on the Iron and Steel Industry*, 1934, p. 53

[2] ibid, p 52 'In return for' this preference the Board suggested that the United Kingdom Government might be justly asked to continue exemption of Indian pig-iron from duty in the United Kingdom and provide for it a satisfactory market there 'as reciprocal benefits to India'

manufacturer, is very difficult to apply in practice.[1] It is not a reflection on the capacity of the Indian Delegation to say that they were not adequately equipped for securing a precise application of the principle. Again, it is not known what measures they took to ascertain the accuracy of the estimate of reasonable costs of the British industry supplied to them.

The equalization method is also open to objection on another ground : there has been a tendency since the War for export prices of manufactured goods to remain persistently below home prices.[2] The requisite degree of protection is thus likely to be underestimated on the basis of home prices in another country—could such prices be ascertained—rather than of the actual import prices of manufactured exports.

Inconsistency of the Tariff Board

The Indian Delegation made it clear that the scheme of duties recommended by them—on which too the scheme of the Tariff Board was based—was not uninfluenced by their desire in view of the then conditions, to mitigate the state of over-capacity in the world's steel industry, through discouraging the setting up of fresh plant in the United Kingdom and India.[3] They had further affirmed their faith in the efficacy of industrial co-operation as at least a partial solvent of a bad situation. In this context, the Indian Delegation were

[1] In testimony before a Sub-committee of the Committee on Ways and Means of the House of Representatives, 72nd Congress, Second Session, in January 1933, the Hon Thomas W Page of the United States Tariff Commission said that 'the authorizing of the Tariff Commission to make comparisons between our domestic cost, which we can sometimes estimate with reasonable accuracy, and the price at which imports are brought to this country in very substantial quantities might be a better criterion for fixing a duty than the futile attempt to compare foreign with domestic costs of production'—*House Hearings on Equalization of Tariff Duties by Compensating for Depreciation of Foreign Currencies*, p 500, quoted in J G Smith, *Economic Planning and the Tariff*, 1934, p 191

[2] cf Bertil Ohlin, *Interregional and International Trade*, 1933, p 292 · 'The author's impression is that, at least since the War, a substantial part of international trade in manufactured goods, but not in raw materials or food, has been characterized by lower prices in foreign than in home markets' This view is confirmed by other recent studies of the geographical price formation of manufactured goods

[3] 'If we had been unable to reach agreement the almost inevitable result must have been the erection of new iron and steel furnaces in the United Kingdom and the accelerated establishment of additional galvanized sheet plant in India, thereby aggravating the conditions from which the world is suffering'—*Report*, p. 37

more consistent in their recommendation for the introduction of differentiation into the tariff on galvanized sheet than the Tariff Board of 1934, which declared itself unable to agree to a policy of industrial co-operation between the United Kingdom and Indian steel industries.[1]

The Iron and Steel Duties Act, 1934

The system of differential duties embodied in the Act of 1927 was continued in the Iron and Steel Duties Act, 1934. The following table shows the duties recommended by the Tariff Board of 1926, the existing duties at the time the Tariff Board of 1934 reported, the duties proposed by the latter, and the duties levied under the Act of 1934.

TABLE XLVI

Differential Protective Duties on Different Classes of Steel Imports since 1926

Class of steel	Duties recom-mended by the Board in 1926	Specific duties until 1 November 1934	Duties estimated by the Board in 1934	Duties levied under the Act of 1934
	Rs per ton	Rs. per ton	Rs per ton	Rs per ton
Rails	13	16¼	Nil	Nil
Fishplates	6	7½	Nil	Nil
Structurals				
(1) United Kingdom (tested)	19	23¾	Nil	10
(2) Continental (untested)	30	37½	43	43
Bars				
(1) United Kingdom (tested)	26	32½	10	10
(2) Continental (untested)	37	46¼	39	39
Plates				
(1) United Kingdom (tested)	20	25	Nil	10
(2) Continental (untested)	36	45	25	25
Black sheets				
(1) United Kingdom (tested)	35	43¾	11	11
(2) Continental (untested)	59	73¾	32	32
Galvanized sheet				
(1) United Kingdom (tested)	38	53	10	10
(2) Continental (untested)	38	83	40	40
Sleepers	10	12½	Nil	Nil

A substantial all-round reduction in the level of protective duties took place at the same time as the differential margins in favour of the United Kingdom were appreciably increased in the case of structurals and bars, and plates. In return for

[1] See the following section

the benefits thus conferred on United Kingdom trade, His Majesty's Government agreed to continue the free entry of Indian pig-iron into the United Kingdom.[1]

6. Imperial Industrial Co-operation: The Balance Sheet in Regard to Iron and Steel

(a) *Advantages Received*

Exports of Pig-iron

The benefit derived by India in return for the substantial preference on galvanized sheet and differential treatment of other United Kingdom steel products may be considered first

The following table gives the exports of pig-iron from India to the United Kingdom and other countries

Table XLVII

Exports of Pig-iron from India

(1,000 tons)

To	1928-9	1929-30	1930-1	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7	1937-8
United Kingdom	6	71	99	69	76	93	98	66	182	242
Japan	354	350	161	188	71	184	246	398	306	312
Total	449	569	439	351	218	378	417	538	574	629
Percentage to United Kingdom	*1*	*1*	*2*	*20*	*35*	*25*	*23 5*	*12*	*32*	*38*

Until 1935-6 there was no noticeable improvement in the Indian exports of pig-iron to the United Kingdom. In 1936-7 such exports registered a phenomenal increase to nearly double the record level of 1930-1 or 1934-5 The proportion of Indian exports taken by the United Kingdom improved from 20 per cent in 1931-2 to 32 per cent in 1936-7.

Imports of pig-iron into the United Kingdom are shown overleaf

[1] The position thus reached in regard to the terms of agreement for iron and steel was reaffirmed by the Supplementary Indo-British Agreement of January 1935 See above Chapter VIII, 3, 'Shift in the Terms of the Iron and Steel Agreement'.

TABLE XLVIII

Imports of Pig-iron into the United Kingdom

(1,000 tons)

From :	1929	1930	1931	1932	1933	1934	1935	1936	1937
India	28	126	47	83	81	110	67	144	215
Total	122	291	284	135	93	126	84	247	645
India, per cent	*23*	*43*	*17*	*61*	*89*	*87*	*80*	*58*	*33*
Production (thousands of metric tons).	7,711	6,292	3,833	3,631	4,202	6,065	6,527	7,845	8,633

By 1934, imports from India had received some stimulus and their relative share of the total imports had considerably gone up. The gap created by the decline in foreign imports had, however, been made up[1] mostly by increased home production, which went up from 3,631,000 tons in 1932 to 6,527,000 tons in 1935.[2]

In 1936 imports from India surpassed all previous records. But home production also showed a big increase. In spite of this, the demand in the United Kingdom outstripped the supply within the United Kingdom and other Empire countries. The 33⅓ per cent duty made outside purchases unprofitable With effect from 3 March 1937, pig-iron was added to the free list[3] From that date the differential advantage of the free entry of Indian pig-iron disappeared.

(*b*) *Advantages Offered*

Imports of Steel

The following table shows the changes in the relative importance of the United Kingdom as a source of supply of iron and steel for the Indian market for a number of years and affords some idea of the advantage of the differential duties to the United Kingdom exporter.

[1] Contrary to the expectations of the Indian Delegation

[2] The statement in the first Departmental *Report* that 'India has been able to capture the United Kingdom market from foreign countries' was incorrect

[3] Import Duties Order, Exemption No. 4, 1937 With effect from the same date, Additional Import Duties Order, 1937, provided for the reduction of duty from 20 per cent to 10 per cent on consignments of iron and steel products imported with a quota certificate and certificates of origin (*Board of Trade Journal*, 1 April 1937).

TABLE XLIX

Imports of Iron and Steel into India

(1,000 tons)

From	1926–7	1927–8	1928–9	1929–30	1932–3	1933–4	1934–5	1935–6	1936–7	1937–8
United Kingdom	406	685	650	486	140	166	182	215	165	168
Total	845	1,197	1,170	973	326	329	370	449	363	372
Percentage	*48·1*	*57 2*	*55 5*	*49 9*	*43*	*50 5*	*49 2*	*47 9*	*45·5*	*45·2*

There was a marked increase from 48 to 57 per cent in the proportion of imports derived from the United Kingdom in the first year of the differential duties introduced by the Act of 1927.[1] Intense continental competition reduced the United Kingdom share by 1932-3 to 43 per cent From January 1933 there was an important addition to the scheme of differential duties in the form of preference on galvanized sheet. Preference was also introduced from 1 January 1933, on certain unprotected classes of iron and steel by the Indian Tariff (Ottawa Agreement) Amendment Act, 1932. As a result, in 1933-4, the United Kingdom share again increased appreciably to 50½ per cent. There has been a relative recession since that year, in spite of the increased differential margins in favour of the United Kingdom on structurals, bars and plates by the Iron and Steel Duties Act Actual imports from the United Kingdom showed a substantial increase up to 1935-6, but reverted later to the level of 1933-4

The table overleaf gives the imports of galvanized sheet into India during the past few years.

The United Kingdom improved her position in terms of the quantity as well as the value of imports until 1934-5 The

[1] The Indian Delegation remarked in their *Report* that the differential duties had *in fact* led to the importation of a higher percentage of British steel (p 33) Sir Geoffrey Corbett adduces striking evidence of the benefit of differential duties to the United Kingdom exporter 'I will take our average imports of steel for the two years before, and two years after, the Act imposing differential duties was passed in the classes on which differential duties were imposed there was an average annual increase of as much as 117,000 tons But, out of this, only 14,000 tons was foreign steel, and the remaining 103,000 tons was British steel, representing an increase of 143 per cent on the average annual imports before the Act'—*Report of Proceedings of the Imperial Conference*, p 131.

TABLE L

Imports of Galvanized Sheet into India

(1,000 tons)

From	1932-3	1933-4	1934-5	1935-6	1936-7	1937-8
United Kingdom	50 (87)	52 (98)	53 (100)	56 (102)	41 (73)	26 (54)
Total	73 (123)	61 (113)	59 (111)	73 (130)	65 (110)	43 (97)

(Figures in brackets give value of imports in lakhs of rupees)

improvement was substantial relatively in 1933-4, when preference was first introduced.

In regard to the other differential duties granted in 1927 and continued and enlarged by the Act of 1934, His Majesty's Senior Trade Commissioner in India stated in his *Report* for 1933-4 that 'it is estimated that a very considerable proportion of the trade formerly supplied by the Continent will be diverted to works in the United Kingdom' (p. 88). The forecast was borne out in the *Report* for 1935-6 : 'the United Kingdom share has increased under almost every item, largely due to the effect of the differential duties vis-à-vis foreign suppliers' (p. 156).

Industrial Co-operation

The substantial differential tariff margins accorded to the United Kingdom are partly in furtherance of the policy of industrial co-operation between the two countries. In the case of galvanized sheet the preference was granted avowedly with a view to fostering the spirit of reciprocity. In other cases too this consideration may have played a more indirect part in the determination of the duties.

Far-reaching proposals for industrial co-operation in respect of the iron and steel industry were, indeed, put forward by the United Kingdom Steel Delegation in terms of the broad policy of the United Kingdom National Federation of Iron and Steel Manufacturers.

The Federation recognized that the Indian industry should have the first claim on the Indian market to the full extent of the whole of its output. They proposed that the balance of the Indian market for both tested and untested steel should

be supplied by the steel industry in the United Kingdom at prices corresponding to the fair selling prices fixed for the Indian industry.[1]

The Tariff Board reviewed these tentative proposals from the point of view of the Indian industry and Indian consumer. Any agreement, it observed, should provide for the progressive development of the Indian industry either by the expansion of the existing works, or by the erection of other works including re-rolling mills. But 'to make the necessary provision for this in a workable manner in the Agreement may present greater difficulties than is imagined' As regards the interests of the consumer too, the Board had apprehensions that the prices might be raised to his detriment.[2] Again, there can hardly be much difference of opinion as to the effect of such proposals on the Government revenues. Of galvanized sheet alone the average imports from the United Kingdom during the years 1933-4 to 1935-6 were Rs. 99 lakhs. The annual loss of revenue involved during the same period by the reduction of duty on imports from the United Kingdom may be estimated at Rs. 15 lakhs[3] This is approximately the measure of subsidy granted to the United Kingdom manufacturer of galvanized sheet

Fundamental Considerations

At this stage of the examination of Imperial industrial co-operation in relation to steel, certain fundamental considerations present themselves. India is the cheapest large-scale producer of pig-iron in the world. She owes her ability to export pig-iron at low prices ultimately to the unique natural advantages enjoyed by her in this line of manufacture. She has excellent iron ore, abundant supplies of coal in close

[1] *Report of the Indian Tariff Board on the Iron and Steel Industry*, 1934, p. 69

[2] ibid, p 70 Also see above Chapter VIII, 3

[3] This loss has been calculated after the method adopted by the Tariff Board by multiplying the average imports during the three years, 1933-4 to 1935-6, i.e. 53,500 tons, with the difference (Rs 30 per ton) between the duty which was imposed on foreign imports, namely Rs 40 per ton (and which would have been imposed on British imports under ordinary conditions) and the rate actually imposed on the imports from the United Kingdom, namely Rs 10 per ton Thus 53,500 × 30 = Rs 16,05,000 This slightly overstates the loss, however, since it assumes that imports from the United Kingdom would have been what they actually were, even with a higher tariff impediment The loss of revenue may, therefore, be put at Rs 15 lakhs annually

proximity, and good supplies of necessary raw materials, e.g. limestone, magnesite and manganese. Her pig-iron needs no protection and any surplus produced above her own requirements for the production of steel can be readily marketed abroad. As the Indian Trade Commissioner in London observed in his *Report* for 1932-3 (Section I), 'Indian pig-iron is much appreciated in overseas markets, wherever local products are not too heavily protected, because of its combining to a singularly successful degree both quality and cheapness.' It was, indeed, the possession of such natural advantages and the belief that at no very remote date the Indian steel industry would be able to hold its own against world competition without State assistance that was held to justify its protection.

On the other hand, no doubt, India suffers from certain disadvantages in the processes of conversion of pig-iron into steel, among the more important of them being the high cost of capital, and of skilled, supervisory, technical and manual labour, and the necessity of importing plant and machinery.

Despite these disadvantages the industry enjoys at present only moderate protection [1] It is well-nigh fulfilling the third condition of the Indian Fiscal Commission. It almost stands on its own legs. The steel industry is, indeed, one of India's most promising and progressive industries.[2]

Precisely for these reasons, however, there appears limited scope for any practical scheme of industrial co-operation by partitioning the Indian market between an organization of British interests and the Indian industry.

[1] 'It is reasonable to suggest that the protection which we now propose for the Indian steel industry may be regarded as in the nature of an anti-dumping provision rather than as a measure of substantive protection'—*Report of the Indian Tariff Board on the Iron and Steel Industry*, 1934, p 58

[2] cf G E Hubbard, *Eastern Industrialization and its Effect on the West*, 2nd edition, 1938, p 293: ' in the future India may become one of the chief exporters—if not the greatest exporter in the world—of certain types of iron and steel products'

Chapter X

THE FUTURE OUTLOOK

1. Commercial and Industrial Policy

It is possible now to take a comprehensive view of India's foreign trade position as a whole, to set forth some of the conclusions suggested by the survey in the foregoing pages, and to indicate the broad lines of a commercial policy most suited to the economic needs of this country.

Co-ordination of Commercial and Industrial Policy

The very first observation that is suggested on a general review of commercial policy as a whole refers to the need for the establishment of some real co-ordination between that policy and other aspects of the general economic policy of the country. The policies relating to the three main branches of India's economic life—agriculture, industry and trade—should be fitted into one another as closely related parts of a well-proportioned whole. Their mutual relations should be clearly defined and articulated and duly kept in view in formulating an advance in one direction or the other. In particular, the bearing of developments in commercial policy on the present and future position of Indian industries should be kept under close observation. Care should be taken to ensure that encouragement of trade and agriculture does not unduly impair the interests of industry.

This, however, appears to present a somewhat artificial antithesis For, the interests of agriculture and industry are not mutually incompatible. They are complementary, and *ultimately* identical. Both stand to gain by the advance of each.

All the same, the immediate problem of commercial policy is to impart some decisive stimulus to agricultural exports, and preoccupation with its solution should not obscure the important objective of economic advance in India—the development of a duly balanced economy.

For, 'Indeed, while they improve the economic position of agricultural countries as producers of foodstuffs and raw materials, the systems of preferences and preferential quotas established by the Ottawa Agreements and by most bilateral treaties, cannot be said to favour the industrial growth of the countries supplying agricultural commodities.'[1] 'All these measures, though they certainly improved to a larger or smaller extent the economic position of the agricultural countries concerned, did not offer a satisfactory and permanent solution of their economic problems. The recovery still rested on precarious foundations, and if, at the best, the immediate situation was improved, the roots of the problem, which lie in the one-sided development of the agricultural countries, remained untouched. Apart from palliatives, there was and is only one way by which the so-called agricultural countries can hold their own in a world in which their natural and essential counterparts—the industrial countries—insist upon being agricultural countries as well: that solution lies in industrialization, which can eventually make them economically more self-supporting'[2]

Industrial Policy

The first point, then, about the correlation of India's commercial policy with her industrial policy is that the latter is very inadequately developed, far less courageously pursued. At present the attitude of the State towards the development of industries, particularly large-scale industries, is in the main passive. The State only seeks to ensure that whatever industrial development takes place is orderly, sound and rational. That is an essential and useful function. But its exercise calls for little direct initiative on the State's part. This relation of the State to industry hardly conforms with the modern view of what it ought to be in a backward country.[3]

[1] International Institute of Agriculture, Rome *The World Agricultural Situation*, 1936, p 21.
[2] ibid, pp 10-11
[3] 'English theories as to the appropriate limits of the State's activities are inapplicable to India . We are agreed therefore that there must be a definite change of view: and that the Government must admit and shoulder responsibility for furthering the industrial development of the country Though there are serious difficulties they are not insuperable, but they will be overcome only if the State comes forward boldly as guide and helper'—*Report on Indian Constitutional Reforms*, 1918, pp. 211, 213

The State should not only await appeals for assistance from industries which are already established and organized. As a first step it may cause an extensive investigation to be conducted into the industrial possibilities of various parts of the country, to discover industries that are 'reasonably assured of sound opportunities of success'. No less an authority than Sir Arthur Salter has pointed out how 'a careful plan based on India's resources and opportunities, which would forecast India's natural development of industries in an order of priority', and in doing so indicate the directions in which State encouragement can be extended to the best advantage and with the least harm, would be of the greatest value.[1] One of the most important problems which he envisages for the Economic Advisory Organization proposed by him is that 'of drawing up in main outline a general plan of India's economic and industrial development in the next few decades, as some guide to the direction of State policy'.[2]

International and National 'Planning'

Reference to the problem outlined above is pertinent at this point because 'planning' has been recommended for the foreign trade of the country.[3] Now, whatever the merits of such international planning, it is necessary to observe that the planned development of *external* economic relations must accompany, if not follow, *internal* economic 'planning'.[4]

[1] *A Scheme for an Economic Advisory Organization in India*, 1931, p. 9.

[2] ibid., p. 28. Schemes for industrial surveys have since been projected by some provincial Governments.

[3] Mr. Lindsay, former Indian Trade Commissioner in London, in his *Report* for 1932-3, characterized the exchange of preferences with the United Kingdom as a measure of 'co-operative planning' in the international sphere. Bilateral trade treaties with other countries may also be similarly described.

[4] The kind of internal planning envisaged here was indicated a few years ago in the following terms:

'National economic planning, to put it in general terms, means or should mean (in the case of India), in the first place, an intelligent survey of the economic resources of the country, actual and potential—resources broadly of agricultural and forest and mineral products; of labour and of capital; of industrial ability and skill; of knowledge of technique and capacity for different types of organization and enterprise; of the state of India's agriculture, handicrafts and large-scale industries, their methods and their organization; secondly, an intelligent definition of the broad lines of profitable development as well as intelligent direction along those lines. National planning implies the prescription of a periodical end for our economic policy and postulates further the provision of some machinery for the attainment of that end.'—*Indian Journal of Economics*, April 1935, my article on 'The Theory and Problems of International Trade'.

The problem of India's foreign trade is a vital part of the more general problem of her economic and industrial development and can be treated properly only as such. Again, foreign trade is only a means to the solution of the general problem of finding wider markets and better prices for the products of Indian agriculture. But these markets may be external or internal. Commercial policy[1] mainly fixes its attention on enlarging the external sources of demand for Indian products: industrial expansion might do within the country what commercial policy seeks to do abroad.

Besides, it must be remembered that preference is at best a subsidiary aid for the development of export markets. It is an artificial shelter in the market of another country based on unequal competition. It must not, therefore, be allowed to distract attention from the cardinal objective of safeguarding and promoting efficiency, economy and quality in agricultural production and marketing:[2] these alone can ensure lasting improvement in the position of India's export trade. And they are essential elements of any 'plan' of internal economic development

Nor should another primary fact be ignored. India must import in order to be able to export. Foreign trade is a two-way traffic: its reciprocal character is fundamental. It is one of the besetting fallacies of popular belief in India that imports are an evil and any action tending to reduce them is good. It is true that they point to lacunae—often important—in the economic system of the country, but a thorough-going policy of excluding imports is not the most efficient means of filling the lacunae. Besides, it is through the purchasing power

[1] Commercial policy is a wide term In the case of any country, it broadly comprehends, in the first place, the policy regulating the relation between its internal and the international economy, or the kind, the degree and means of control over the movements of trade, by means of tariffs and other regulative instruments It refers, secondly, to the basis of uniformity in the differing relations of its internal economy to the several units of international economy The two aspects are generally closely interrelated The general question of free or freer trade *versus* protection or higher protection belongs to the first aspect, such matters as the most-favoured-nation clause, reciprocity and bilateralism fall within the second aspect It is mainly in its second aspect that reference is made to commercial policy in the pages that follow

[2] The Indian Trade Commissioner in Section I of his *Report* for 1932-3 observed that 'where India loses ground is not through any deterioration of her existing standards but through failure to improve them as rapidly and as consistently as her rivals are improving theirs'.

created by imports abroad that the demand for exports becomes effective. But, above all, imports represent the payment for exports which prevents the latter from being a free gift to foreign countries

Constitutional Aspects of National Economic Development

To resume the reference to industrial policy, under the Government of India Act, 1935, the 'development of industries' is a subject for provincial legislation and regulation, excepting 'the development of certain industries' in respect of which 'development under Federal control is declared by Federal law to be expedient in the public interest'.[1] It would clearly be advisable in the interests of concerted development to have an Inter-Provincial Industrial Council composed of the provincial Ministers in charge of industries and the heads of the industries departments to meet from time to time, besides a permanent Industrial Intelligence Bureau, apart from the existing Industrial Research Institute, to serve as a clearing house of information in regard to industrial production and marketing. It would be of importance, moreover, to see that the provision relating to Federal control of industries of inter-provincial and all-India importance is actively enforced, and that the Federal Government take the initiative in planning inquiries of a broader and more fundamental kind and devote special attention to 'co-ordinating the different aspects of public policy in relation to economic development of the country, agriculture, industry, mining, transport, banking, internal commerce, foreign trade, etc',[2] so far as possible under the present constitutional division of powers and functions.[3]

2. The International Trade Outlook

A reference has been made in the last section to certain fundamental and related aspects of commercial policy. The

[1] Seventh Schedule, Federal Legislative List, item 34, and Provincial Legislative List, item 29

[2] Bowley and Robertson, op cit, p 3 This function could be appropriately carried on under the direction of the present Economic Adviser to the Government of India

[3] Agriculture, for instance, is a provincial subject, but research relating to certain agricultural problems is at present very properly conducted at the Centre

outlook in regard to international trade and trade policies may now be briefly reviewed. In the next section the general lines of a commercial policy most suited to Indian conditions will be indicated.

Decline in Trade and Increase of Control

The period of the Great Depression (1929-33) and subsequent Recovery (1933-7) has witnessed two important changes in the field of international trade: (1) a marked retreat from international economic co-operation with a great reduction in the volume and much more in the value of international trade and transactions, and a corresponding relative increase in the importance of home trade and transactions;[1] (2) marked shifts in the channels of international trade through a regrouping of trade relations among nations brought about by deliberate policies of trade control.

A study of the mechanism of trade restriction and control shows that its traditional forms, tariffs in particular, have come to play a relatively subordinate part beside the much more effective devices like quotas, exchange regulation, discriminating bilateral compensation and clearing agreements. As a result, the complex and flexible fabric of multangular trade has been seriously undermined and the principle of equality of treatment considerably impaired.

This description has, however, been applicable more particularly to the European and South American countries. Over a large part of the world consisting of the sterling group of countries and the United States, which together have accounted for half the world trade, trade has continued largely unrestricted by quotas or exchange control, often triangular and able to expand, with the most-favoured-nation clause fully applicable,[2] though tariffs have, in general, been higher than before.[3]

[1] During the later part of the period when the depression was lifting, an appreciable expansion in international trade occurred (see above Chapter II, 1). Recovery in trade, however, lagged behind recovery of production

[2] League of Nations Economic Committee *Equality of Treatment in the Present State of International Commercial Relations The Most-Favoured-Nation Clause*, 1936

[3] Over the world as a whole tariffs still remain the most important form of hindrance to trade

Freer Trade

The need for a larger freedom of trade requires no stressing. It is necessary to appreciate the real obstacles in the path. Besides the general disequilibrium in *economic conditions*, the dislocation of the normal machinery of trade, and the intractable problem of securing foreign exchange for essential supplies from abroad, strategic, political and sentimental motives have mingled in the drive towards self-sufficiency and economic independence And now the major obstacles to trade no longer retain their character of crisis measures. They have become parts of a more or less permanent apparatus for the regulation and redirection of international trade The resulting increase in cost of living levels is accepted as the necessary price of real or fancied economic security

The gathering movement of internal economic recovery in all countries until the recent recession furnished at once the need for greater freedom and the opportunity to remove the extreme forms of restrictions. The nucleus of international co-operation in currency matters brought into being by the Tripartite Currency Agreement, however, failed to develop into more general co-operation in the economic sphere All the same, opinion in favour of freer trade gained way, and some small steps were taken in the direction. Among the more important recent events in the movement have been the resolution of the League Assembly in September 1936 commending the Tripartite Agreement and exhorting the nations of the world to relax quotas and exchange controls and promote international trade; the approval by a meeting of the International Chamber of Commerce in Paris in the autumn of 1936 of a plan prepared by a group of economists, suggesting practical measures for the removal of trade restrictions; the signing in May 1937 of the Oslo Convention by Belgium, Luxembourg, the Netherlands, Sweden, Norway, Denmark and Finland for the abolition of certain quotas and the halting of tariff increases; the investigation by M. Van Zeeland, Belgian Prime Minister, at the instance of the British and French Governments, of the requisite first steps towards freer trade, and his *Report* on the same.[1] But the real tone of the

[1] The *Report* contains a concise and very useful summary of the various steps which have from time to time been considered as means of restoring greater freedom of trade, with critical conclusions

international situation is characteristically revealed by the reception that the publication of the *Van Zeeland Report* met. The *Report* was generally commended as a valuable, but put aside as an impracticable, document !

Indeed, the extreme uncertainty of the political outlook and the constant scare of war dominate the international picture. The talk of freer trade among nations feverishly putting up military as well as economic defences sounds unreal !

An investigation of the most fruitful methods of returning to freer trade cannot be expected to bear results in the absence of the will to freer trade. It has some utility, however, as indicating what limited scope for progress exists amid a generally unpromising situation.

Methods of Tariff Reduction[1]

The possible alternatives are (1) autonomous or unilateral action on the part of individual Governments, (2) bilateral negotiations, (3) collective agreements among groups of Governments, (4) a general agreement arrived at in conference. The first and last methods are ruled out in the prevailing temper of the world.

Reciprocal bilateral treaties or exclusive mutual concessions, which are the present line of commercial policy, may effect small breaches in the barriers to trade and offer limited openings in definite directions, but they can do little more than tinker with the major obstacles, and doubtless distort the normal courses of commerce. A larger measure of success has attended the method being followed by the United States of effecting tariff reductions by generalizing under the most-favoured-nation clause concessions made in bilateral treaties.

Low Tariff Groups

But a policy that offers a still more promising prospect of return to comparative freedom of international trade is that of collective or regional agreements among groups of countries.

[1] So far as quotas and exchange allocations are concerned, the only means of improving them, short of abolition, that may be suggested is to make them more of protective (in so far as they must be), and less of discriminatory devices Of course, some degree of discrimination is inherent in their nature

The way to the conclusion of such low tariff or freer trade agreements is, however, barred by a strict interpretation of the most-favoured-nation clause, which requires the extension to non-participating countries of benefits reciprocally exchanged among parties to such an agreement. The Oslo Convention concluded in May 1937 had to be given up a year later largely due to the same reason.

The problem of the exceptions that might be allowed in order to make the application of the most-favoured-nation clause more elastic and better suited to present conditions was studied by the Sub-commission on Commercial Policy of the Monetary and Economic Conference held in London in 1933. The Sub-commission recommended an extension of the scope of exceptions to the operation of the clause to include 'an exception in favour of collective conventions for the reduction of economic barriers open to all countries'.[1] An exception to the most-favoured-nation clause may then be recognized in the case of preferential agreements designed for mutual tariff reductions under defined conditions which are open to all countries to join on the same or similar terms[2]

An illustration of such an agreement is afforded by the Commercial Treaty concluded at Ouchy between Holland and Luxembourg in 1932, which provided for a reduction of 10 per cent in the tariffs of the two countries against each other every year for five years, or 50 per cent in all, and offered the benefit and obligations to any other country that cared to adhere to these conditions. At the Seventh International Conference of the American States held at Montevideo in December 1933, a resolution was approved in favour of a general convention under which signatory parties promised to refrain from invoking in their relations with one another the obligations of the most-favoured-nation clause in order to obtain the benefits of certain types of general

[1] League of Nations *Report of the Monetary and Economic Conference*, 1933, p 23

[2] Apart from the small modification suggested here, there is little to commend efforts to undermine the authority of the most-favoured-nation clause The principle of equality of treatment which it embodies is so vital and crucial in international economic dealings that its abrogation will be nothing short of a disaster At any rate, the cumbrous devices of quotas, exchange controls and allocation, clearing and compensation agreements, bilateral trade balancing, etc., recently employed by nations to restrict imports and force exports can be no permanent substitute for a commercial system based upon the principles of freedom of enterprise and equality of treatment

multilateral economic agreements. The declared purpose of this general convention is to encourage the use of multilateral agreements as instruments of international and economic progress.[1]

Bilateral, Unconditional Most-Favoured-Nation Agreements

The policy set forth above in its elements furnishes a bolder line of attack on the problem than bilateral pacts. But it postulates a greater degree of agreement than appears to be forthcoming at present. In spite of their limitations, therefore, bilateral agreements provide an immediately more practical instrument for the promotion of freer trade, particularly so if the practice of generalizing concessions, reciprocally exchanged, to third countries under the unconditional most-favoured-nation clause were more widely adopted, and if substantive, as distinguished from formal bilateralism[2] ceased to be the aim of such agreements.[3]

The United Kingdom and Freer Trade

So far, the United Kingdom has maintained a stiff attitude in regard to the modification suggested above in the scope of operation of the most-favoured-nation clause. It was, indeed, her insistence on a rigid interpretation of her rights under the most-favoured-nation clause that led to the abandonment of the Ouchy Convention. A revision of the general attitude of the United Kingdom towards the clause in favour of agreements for lower tariffs open to all would go far to make the prospects of freer trade definitely hopeful. The United Kingdom in fact may well take the lead in reversing the trend

[1] The United States signed it on 20 September 1934, and thereby set a commendable example for other nations to follow

[2] Substantive bilateralism refers to a policy of equalizing trade between two individual countries, formal bilateralism, to the practice recommended above of agreements between two parties under which concessions mutually exchanged are extended to third parties under the unconditional most-favoured-nation clause A reference to the context should indicate in each case whether 'bilateralism' or 'bilateral' is meant to be understood in the substantive or formal sense.

[3] The terms 'reciprocity' and 'reciprocal' may have alternative meanings on a more or less similar basis They may refer to the exchange of equal or equivalent concessions, or merely to the fact of a two-sided transaction without nice measurement of the quantities exchanged

which owes no small part of its present momentum to the change in her fiscal policy six years ago.[1]

In concluding their brief survey of a normalization programme, the Economic Committee of the League of Nations wrote: 'To give it the greatest chances of success, any attempt at international economic collaboration should be confined in the first place to a limited number of countries—namely those which have a decisive influence on the course of events both in the political and in the economic sphere.'[2] Thus, the country whose initiative above all others is necessary in promoting a move for freer trade is the United Kingdom, though the United States should play a hardly less important role, and the active collaboration of France would be essential. The movement might include from the start the democratic countries of the Baltic and Scandinavia, and might, as it spreads, permeate a few of the countries of the Balkan region, the economic satellites of the three major States, the countries of the British and French Empires, and of the sterling area, and so on in a widening virtuous circle!

The Ottawa Agreements and Freer Trade

In particular, what part can the countries of the British Empire play to advance the cause of freer trade and peace? What is the significance of the existing Ottawa Agreements? In what direction is a change in them called for to adapt them to the requirements of the new situation?

The Ottawa Agreements concluded in 1932 made a big breach in the old system of equality of treatment in trade. Although the preferences are regarded as the internal affair

[1] 'The changes in British fiscal policy since 1931 have had a wider reaction on international trade than the policy of any other country. British policy may have been justified in the circumstances. Britain has it in her power now to make a correspondingly great effect if she is prepared to move in the contrary direction.'—*Nineteenth Century*, November 1936, article by Sir George Schuster on 'Some Reflections on the Currency Position.' Also cf. Sir Arthur Salter in a speech in the House of Commons, quoted in *Economist*, 29 May 1937. 'I believe it is true that if we take into account the place which Great Britain occupies in the trade of the world, the size and importance of the British market . . . and then consider the cumulative effects of Imperial preference with the Dominions, the new protective system here, the abandonment of the open door, and the establishment of agricultural quotas, it is literally and absolutely true to say that in the last five or six years, since the depression, the commercial policy of no single country in the world has had so great an effect as has that of our country in restricting and deflecting the trade of the world.'

[2] op. cit.

of the Empire,[1] and the most-favoured-nation clause has not been formally infringed, they constitute in practice a vast extension of the network of discriminatory tariff systems between separate nations for all practical purposes, and have greatly handicapped the trade of foreign countries with the Empire.[2]

The system of preferences embodied in the Ottawa Agreements has an important bearing on the demand of the dissatisfied powers for the readjustment of colonial possessions. The Colonial problem was not so serious when all nations had equally free access to the sources of raw materials and the markets for the disposal of exports. The restrictive commercial policies of the present-day Empires[3] lend point and piquancy to the grievance of the 'have not' powers. For them the 'open door' is now closed. Referring to the difficult foreign exchange position of the non-colonial countries like Germany and Italy in recent years, the *Report on Raw Materials and Colonies* of the Royal Institute of International Affairs observes that a 'serious development is the tendency towards exclusive trade agreements whether bilateral or multilateral. Of these the most important are probably the Ottawa Agreements between the United Kingdom, the British Dominions and India, particularly in so far as they involved raising the general tariffs in order to grant a preference. . . . Naturally the only objection to such agreements is their exclusiveness; this criticism would not apply if these low tariff groups were in practice open to all countries to join.'[4] The Economic Committee of the League of Nations in a report point to 'a grave danger that intra-Imperial commercial arrangements which are exclusive in form may constitute not merely an

[1] See *Report of the Royal Commission on Trade Relations between Canada and the West Indies*, par 132, quoted in Gregory, op cit, p 269

[2] cf *Economist*, 1 May 1937, p 250. 'Ottawa and the British tariff together have constituted the greatest obstacle erected against the trade of foreign countries since the crisis of 1929'

[3] The British and French Empires mainly. The American relations with Cuba, and Italy's relations with her African colonies are also on a preferential footing. The Dutch Empire is a notable exception

[4] Royal Institute of International Affairs, Information Department Papers, No. 18, p 37 Mr Leonard Barnes in *The Future of the Colonies*, suggests that the British Empire as a whole which together with other countries linked to sterling forms a vast economic group, is in a position to give an effective lead to the world by forming an Empire low tariff group open to other countries to join on the same terms

impediment to the restoration of trade outside the area they cover, but also an impediment to a restoration of stable international relations'. They emphasize the necessity for the British Government, if they desire such a restoration, to make 'certain changes in the policy in this respect'.[1]

There are two important suggestions for modifications of the lines of the Ottawa Agreements which appear to command substantial support. Firstly, the agreements should be based not on a fixed amount of preference—which makes it impossible to reduce duties against foreign countries without at the same time reducing duties on Empire goods—but on maximum duties on Empire goods, the line adopted by Canada in her new agreement with the United Kingdom[2] Secondly, the United Kingdom should establish an intermediate tariff which would enable her to extend a share of the benefits of preference to foreign countries pursuing a genuinely liberal commercial policy, and, by assuming the obligations herself, to participate in the advantage of low tariff groups.[3]

The Preferential Régime and the Colonial Empire

Again, there appears to be a growing volume of dissatisfaction with the policy of the 'closed door' in the dependent Empire. The Rt Hon. Lord Lugard, British Member of the Permanent Mandates Commission has expressed the opinion that provided the other Colonial powers are prepared to bear their share in the collective effort, Great Britain should revert once more to her traditional policy of the open door in all her overseas territories[4] The alternative is to tighten

[1] Quoted in *Economist*, 1 May 1937, article on 'The Empire and World Trade'

[2] The British Government tried to persuade the Australian Delegation which recently visited the United Kingdom to agree to this principle

[3] This suggestion was made in *Economist*, 1 May 1937, and was later stressed in a somewhat different form by the Federation of British Industries

[4] *International Affairs*, January-February 1936, article on 'The Basis of the Claim for Colonies'

Economist refers to the closed door in the dependent Empire as compatible neither with economic sanity, nor with Imperial trusteeship, nor with international appeasement (1 May 1937, p 268) Thus Sir Arthur Salter says in *World Trade and its Future*, p 98 'It would, I think, be wise for Great Britain to return to the earlier policy of complete equality of economic opportunity for all countries in the trade of non-self-governing Colonies, and to offer to bring these Colonies under the Mandate system and render an account for the discharge of British Imperial responsibilities' Also see J H Richardson, *British Economic Foreign Policy*, 1936, p 145, *Lloyds Bank Monthly Review*, May 1936, pp 236-8, article by

up restrictions and move towards greater isolation and to organize the Empire for defence against the just jealousy of foreign powers.[1] This unfortunately is the course which circumstances have conspired that the United Kingdom should follow.

3. India's Foreign Trade Policy: General

It remains to sketch in broad outline the most suitable policy for the regulation of India's economic relations with foreign States.

The keystone of India's commercial policy since the middle of the last century has been the principle of according universal equality of treatment to imports from all nations under a single-line tariff.

The Indian Fiscal Commission reviewed the whole question of India's tariff policy and recommended no change in the principle of the single-line tariff or of unconditional equality of treatment apart from the introduction of some measure of preference for the United Kingdom. Neither of the two double tariff systems generally adopted at the time was regarded as in the least suitable to Indian conditions Double tariffs, they observed, were generally adopted by countries which exported manufactures, and which being faced by special difficulties of hostile tariffs were driven to the necessity of bargaining for special advantages But 'India is mainly an exporter of raw materials; her exports are not faced by hostile tariff walls, and she is not yet therefore under the

Lionel Robbins on 'The Consequences of Economic Nationalism'; Lionel Robbins, *Economic Planning and the International Order*, 1937, pp 93, 123; National Peace Council *Peace and the Colonial Problem*, 1936, *International Affairs*, January-February 1936, article on 'Peaceful Change or War?', *The Times*, 20 September 1935, article by Lord Lugard on 'Africa and the Powers', Royal Institute of International Affairs *The British Empire*, 1937, p 249, Sir Norman Angell, *This Have and Have-Not Business*, 1936, *The British Colonial Empire and the German Claim*, 1937, Royal Institute of International Affairs, Paper No 23, *Germany's Claim to Colonies*, H S Ashton, *Clamour for Colonies*, 1937, Sir George Paish, *The Way Out*, 1937, Alfred Plummer, *Raw Materials or War Materials*, 1937

[1] While the essential soundness of this view remains unimpaired, it is clear that the recent colonial claims of certain nations are based primarily on political considerations of power, pride and prestige.

necessity of pushing her exports by means of special negotiations or the grant of reciprocal concessions '.[1]

By 1933 much had been changed. India had found herself under the vital necessity to push her exports by special bargaining at least in the case of her greatest single customer: the Ottawa Agreement between the United Kingdom and India had been concluded.

The Demand for Bilateral Trade Treaties

Besides, the severity of the slump in India's export trade, the heavy shrinkage of her export surplus particularly in the trade with Europe, the general tendency to 'planning' of trade through more or less elaborate trade treaties, and the example of the United Kingdom herself, have all tended to create a strong movement of opinion in the country in favour of a comprehensive policy of trade development through bilateral trade treaties with principal trading countries other than the United Kingdom. It is perhaps realized that bilateral treaties do not promise more than a limited expansion of trade Nevertheless, it is contended that no single country, much less India, can afford to keep out of line with the general trend of economic and trade policy.

At the outset of an examination of this demand it must be observed that, though it has been often and insistently voiced, it has not assumed the form of any definite or concrete proposal It remains much of a vague aspiration, the expression perhaps of a strong feeling that the situation calls for a more courageous and positive policy of trade expansion than has been pursued so far. There has been surprisingly little constructive thinking as to the ways and means of bringing about the much desired result. The idea of reciprocity[2] in trade treaties is emphasized, but otherwise the proposal remains somewhat bare of content and blurred in outline

[1] *Report*, p 126 Moreover, since the level of import duties would be scientifically determined by the amount of protection adequate for her industries, a double tariff would render the protection either excessive or insufficient This objection would of course apply only in cases where there was a protected Indian industry (see above p 151)

[2] See above p 14 n 1.

Alternatives in Trade Treaty Programme

Should India choose to enter upon a course of bilateral trade treaties, the various alternatives for her in practice would be: (1) Exclusive reciprocal agreements based on (i) compensation or barter deals between Governments and/or State regulation of compensation business between private parties; (ii) clearing arrangements with countries practising exchange control; (iii) regulation of trade by quotas; (iv) tariff adjustments; or a combination of one or more of the above elements. (2) Exclusive reciprocal *tariff* agreements. (3) Reciprocal *tariff* agreements with conditional most-favoured-nation treatment, i.e. reciprocal tariff agreements (involving tariff adjustments at least on the side of India), the benefits of which may be conditionally extended to other countries who grant equivalent concessions and thus qualify for the receipt of benefits given to an original co-contractant. (4) Reciprocal agreements, the benefits of which may be unconditionally extended to all countries entitled to most-favoured-nation treatment.

All the methods included under (1) and (2) are incompatible with the principle of equality of treatment and are essentially discriminatory in a greater or less degree.

Bilateralization of Trade

Almost all reciprocal bilateral agreements concluded in recent years except those which fall in the last class, however diverse in form and in the details of their structure, have one general tendency. they have tended to equalize the flows of commodities or total financial claims between individual countries. This tendency is particularly marked in the case of clearing agreements and others involving extreme forms of restriction.

Significance of the State of the Trade Balance

Now, countries with an unfavourable balance of commodity trade may use reciprocal bilateral treaties as an instrument for the enlargement of export trade, or for its maintenance during a period of declining trade and increasing restrictions.

The United Kingdom, for instance, has used her strong bargaining position in this respect to the advantage of her export trade and her balance of trade. Her agreements are directed towards securing greater equality of trade, the other country increasing its importation of British goods or being faced with a restriction of exports to Great Britain. The principle applied is, 'Buy from those who buy from you', which represents a departure from the more natural triangular trade [1] Countries like France and Italy too having import balances may use such reciprocal treaties to the advantage of their export trade. Even so, a reciprocal bilateral treaty between India and the United Kingdom, keeping in view both merchandise and financial transactions, might stimulate Indian exports, since India has an unfavourable balance of payments with the United Kingdom, and until recently had an import surplus in commodity trade alone.

In general, and, on the whole, however, India is in a different position from these countries . not only has she an excess of exports over imports as a whole, but she has an export surplus in her trade with almost all countries with which she trades.[2] This position of the balance of trade has a vital bearing on India's foreign trade policy. It renders unsuitable from her point of view the short term bilateral agreements based on compensatory special advantages, and aiming at a mutual balancing of exports and imports between individual countries Such agreements are likely, if anything, to operate to the detriment of India's export trade. We must guard against the common error of thinking that what is good for England is necessarily good for India, or what is good for India in her trade relations with the United Kingdom is also, *therefore*, good for her in her trade relations with all countries.

Again, it should be remembered that the novel and drastic methods of trade regulation like quotas, compensation and clearing agreements, were resorted to initially to meet desperate situations. They are symptoms that the basic conditions for the conduct of trade are uncertain and extremely unsatisfactory. They afford no more than a modest alleviation of a bad situation. They cannot be reckoned among the

[1] See Richardson, op cit, pp 101-2

[2] Until 1935-6, the United Kingdom was the outstanding exception.

positive measures of a policy of trade development.[1] They are often clumsy devices, for, among other things, they compel the exporting nation or even an individual exporter to become necessarily an importer at the same time, and *vice versa*. They are expedients fit in general for emergencies only.[2]

Reciprocity Treaties,

A brief reference may be made here to some fundamental features of reciprocity treaties based on exclusive preferences or on the conditional interpretation of the most-favoured-nation clause [classes (2) and (3) above] as distinguished from treaties based on the unconditional most-favoured-nation clause [class (4) above]. Under a system of treaties based on the unconditional most-favoured-nation clause, the benefits mutually exchanged are automatically extended to all countries entitled to most-favoured-nation treatment. A reciprocity agreement, in the first place, postulates the reciprocal exchange of defined and equivalent concessions, and, secondly, provides against extending the benefits to third parties either absolutely, or without requiring identical or equivalent considerations from them.

Equivalence

The crucial point in the case of a reciprocity agreement, thus, is how to establish and how to maintain equivalence. But equivalence is an entirely relative concept, with no yard-stick for its measurement in absolute terms. Every country has its own standard of value for judging the advantage or otherwise of changes in the export and import trades. For instance, an industrial nation's demand for imports of raw materials (which it cannot produce) may be more intense than another industrial *cum* agricultural country's demand for imports of

[1] Suggestions have been made from time to time that the quota system should be extended to cover practically the whole range of Indian imports (*Annual Report of the Indian Merchants' Chamber*, 1935, p 39) and demands are put forward by responsible bodies for the securing of 'definite' markets for Indian exports by terms of treaty See, for instance, the resolution of the Federation of Indian Chambers of Commerce and Industry passed during its annual session held at Delhi on 7 April 1937, making suggestions about the proposed United Kingdom-India Trade Agreement

[2] In India too the imports of cotton piecegoods from Japan have had to be restricted by quota because of the very serious effect of Japanese competition on the local mill industry

manufactured goods (which compete with the products of its home industry). Equal concessions on imports in such case may involve unequal real sacrifice [1] And there is no sure index of the degree of inequality in sacrifice involved in any particular case

Complementary and Identical Concessions

It is difficult enough to compose such differences of valuation where the grant of complementary and not identical concessions to different countries is involved. The task of correctly evaluating the various alternatives becomes of much greater complexity when two countries press for obtaining an identical concession and make reciprocal offers to secure it Suppose the United States and Canada ask for special terms for the entry of their motor-cars into India, and the United Kingdom at the same time insists on a margin of preference, and all of them offer special concessions on the import of Indian raw materials or semi-manufactures. In such a case it may be found after all that the best or least unsatisfactory solution is to accord equal treatment to imports from all sources. At any rate, it may be so difficult to assess the value of the various concessions offered in return, or to consider particular transactions apart from the sum total of trade transactions between two countries that differential treatment could not be based on easily understood or generally recognizable grounds.

And indeed, advance estimates of the real value of trade concessions are often nothing more than pure guesswork When economic considerations dictate a doubtful course, non-economic motives are likely to supervene and force the issue to a conclusion which appeases the political sentiment of some and excites the suspicion and antipathy of others.

Even if some sort of agreements were arrived at and approximate equivalence attained, there is no end of the difficulties. The equivalence is relative to conditions obtaining at a particular time and could be maintained without change only in a static state In a dynamic world the point of equilibrium of economic forces is constantly shifting and a

[1] This consideration is pertinent to a determination of the proper range of reciprocal preferences on either side between the United Kingdom and India.

disturbance which already rests on a delicate adjustment of considerations becomes inevitable.

Exclusive Reciprocity Treaties

Under a system of commercial treaties based on exclusive reciprocity, both the difficulties of adjustment and the dangers of friction are multiplied. It would generally happen that in many important lines of imports, more than one country is interested. Now if any one of them is placed in a specially favourable position vis-à-vis its rivals, and no encroachment on that position is possible even by the offer of similar concessions by other countries, an irremediable inequality of trading conditions results which becomes a cause of just grievance on the part of the country or countries adversely hit. The nice apportionment of benefits to individual States and the careful maintenance of the scheme of distribution necessarily involve greater delay than a system of unconditional most-favoured-nation treaties.

Reciprocity not unoften leads to reprisals and retaliation, exclusiveness on this side to exclusiveness on the other, discrimination to discrimination. Retaliatory wars are very unlikely to improve the prospects of India's export trade; for India, exporting more to most countries than she imports from them, is not in a strong position to hit back.

Conclusion: Bilateral Reciprocity Unsuitable for India

The conclusion to which the above discussion points is that a system of bilateral trade treaties based on direct barter deals between Governments or private parties, or strict control of the means of payment or of the quantities of commodities imported from different countries, is not likely to serve the interest of the extension and development of the export trade of India. Compensation and clearing agreements, and quotas are essentially restrictive devices, not fit instruments for the enlargement of trade. They are not the proper apparatus for carrying through a systematic policy of opening up closed avenues and creating fresh outlets for India's exports. A system of reciprocity treaties involving a balancing of concessions on either side, symptomatic of the trend to bilateralism, is fundamentally opposed to her interest.

Equality of Treatment

Indeed, with the present aim of Indian commercial policy as an expansion of markets for Indian products abroad through freer access to foreign countries, the principle of equality of treatment should be its corner-stone.[1] No other basis provides a satisfactory prospect of enlarged trade: a durable trade revival is difficult to achieve through devices essentially designed to restrict rather than enlarge trade. Short of free trade, moreover, the very mention of which today is an anathema, equality of commercial treatment alone provides for international economic specialization and the best utilization of the world's resources

Conditional Most-Favoured-Nation Clause Inconsistent with Equality

Given the end, the unconditional form of the most-favoured-nation clause is the necessary means. The conditional most-favoured-nation clause is not—as it is sometimes regarded to be—an alternative method of gaining the same objective: it does not lead to equality of treatment. Logically it tends towards discrimination, 'inequality of treatment, complexity of tariff rates, commercial insecurity, perpetual suspicion and mutual distrust with the consequent international ill-will and more or less a consistent attempt at retaliation by injured countries'[2] The failure of the conditional most-favoured-nation clause to arrive at equality of treatment is clearly brought out in the following description of the circumstances under which the United States abandoned it:

'This "conditional" interpretation of the most-favoured-nation principle extends to country B the concession we granted to country A for a consideration only if country B makes concessions to us equivalent to those made by country A. At

[1] Since the trend of commercial policy in practice constitutes a wide departure from this principle, it may be well to note the simple yet vital content of its appeal to the trading world 'Since the time when means of communication became so widely developed sufficiently as to make it possible to speak of world trade in the present sense of the term, no country has been willing or able to admit the application to its exports in the country of destination of higher or more burdensome customs duties or other import charges than those applicable on importation to the goods of other countries But if a country desires to obtain the benefit of equality of treatment for its exporters, it can only do so by giving equality of treatment to other countries'—League of Nations Economic Committee op cit, pp 5, 8

[2] W S Culbertson, *Reciprocity*, 1937, p 250, letter to Secretary of State Hughes, 14 December 1922

first glance this principle seems eminently fair. It has the appearance of equality and was adopted with the idea that it offered, if not equality of treatment, at least the opportunity to secure equality of treatment on a reasonable basis. It was inaugurated at a time when tariff rates were of minor importance as compared to the right to trade at all. . . . But now international commercial policies are dominated by tariff rates and regulations. Most of the European powers have two-column tariffs and except in a few cases tariff negotiations have developed into statistical controversies over the relative value of the concessions to be made. This has rendered it almost impossible to arrive at any agreement upon the equivalent concessions to be made by the third party. In practice, therefore, the conditional interpretation of the most-favoured-nation clause has broken down. In some cases the United States has taken the extreme position of asserting that a third country could offer no equivalent concession because the value of the original concession consisted in its being exclusive. . . . Instead of contributing to equality of commercial opportunity among nations, it (the conditional most-favoured-nation policy) has become the support of discriminatory reciprocity treaties.'[1]

It must be clearly understood that the conditional most-favoured-nation principle affords no security against discrimination in foreign countries and is not therefore a proper instrument for the promotion of equality.[2]

Reciprocal, Unconditional Most-Favoured-Nation Agreements

There remains, therefore, the alternative of bilateral agreements based on the reciprocal, unconditional most-favoured-nation clause [class (4) above].

[1] ibid, pp. 246-7 Also cf *Foreign Affairs*, January 1936, article by Henry F. Grady (sometime Chief of the Division of Trade Agreements, United States Department of State) on 'The New Trade Policy of the United States' 'The conditional principle has inevitably degenerated into a vast and complex system of bilateral agreements which have made international commerce in effect commercial warfare, with countries forced to buy from each other what are not, in a true sense, trade building concessions, but rather tribute for immunity from acts of commercial aggression'

[2] 'The conditional form of the pledge of most-favoured-nation treatment is, in practice . . . a meaningless pledge, imposing no real obligation on the country granting it, and conferring no genuine protection on the country receiving it.' Joint Committee, Carnegie Endowment. *The Improvement of Commercial Relations between Nations and the Problem of Monetary Stabilization*, 1936, p. 96.

Now it is not perhaps generally known that India as part of the British Empire is a party to a large number of mutual most-favoured-nation treaties with foreign nations.[1] It is true that at present only partial equality in trading conditions is secured through them. The most-favoured-nation clause, traditionally held applicable only to tariffs, is dodged by quotas and other discriminating devices. But reciprocity—the exchange of equal or equivalent favours—is not *therefore* a solution. The solution lies in the direction of attempting through negotiations to secure the real objective of the most-favoured-nation clause—fair and ' equal ' treatment for Indian exports in respect not only of tariffs, but, so far as possible, of quota and exchange allocations as well.

The United States and the United Kingdom have tried through bilateral agreements to ensure real, and not merely nominal maintenance of their most-favoured-nation rights.[2] The line of advance for India's commercial policy lies along the same direction : not to undermine the authority of the unconditional most-favoured-nation clause, but to aim at making it more effective, through a review and revision of her existing bilateral treaties, as and when the opportunity arises, and through the conclusion of other bilateral agreements based on the unconditional most-favoured-nation clause, e.g. in the case of France, as suggested in Chapter III.

It may be useful to explain a little more fully the precise purport of the advance proposed here in the commercial policy of the country as well as to clear a few obvious misunderstandings about the real significance of the unconditional clause existing in certain quarters

Unconditional most-favoured-nation treatment is to be distinguished from that universal equality of treatment which is the necessary consequence of a unilateral tariff. While the latter obtains irrespectively of the treatment accorded to exports by any foreign country, the former, properly applied, makes the grant of equality a reciprocal exchange. In this context, the use of the term ' unconditional ' is somewhat of a misnomer . the grant of unconditional most-favoured-nation

[1] See Appendix A.

[2] For an able survey of the working of the United States policy, see Culbertson, op cit, and Henry J Tasca, *The Reciprocal Trade Policy of the United States*, 1938

treatment is not, indeed, altogether unconditional: it is commonly (reciprocal and therefore) conditional upon the grant of the same treatment on the other side.[1]

The Unconditional Clause and Non-tariff Trade Controls

This leads to a consideration of how the principle of equality can be applied to methods of trade control which are discriminatory in essence, such as quotas, exchange control, clearing and compensation agreements, and Government monopolies.

As regards quotas, what is known as the 'proportional' method has been generally held to provide the nearest application of the underlying idea of the most-favoured-nation clause that the system permits. Under this method, each country is allowed to import a certain uniform proportion of its total imports during a basic reference period prior to the institution of the quota. Discrimination is, however, by no means completely excluded thereby. The base period selected may favour imports from one source relatively to another. And, at any rate, no rigid ratio of imports from different countries appropriate to a past period could fulfil the changing needs of the present: a static formula stereotypes old channels of trade and prevents the occurrence of normal shifts in them.

The same method may be applied to exchange control. This application may be more difficult, however, as the allocation of the limited quantity of foreign exchange necessarily involves discrimination between essential and non-essential, or more and less essential imports, and therefore between the countries of supply.

In regard to official monopolies, an assurance—which can by no means give complete satisfaction—may be secured to the effect that their activities will be guided by the ordinary economic considerations of price and profit.

Clearing agreements have a definite tendency to bilateralize

[1] cf Henry F. Grady, loc cit 'The unconditional principle is, on the other hand, based on the broader concept of reciprocity in the form of generalization of concessions in return for generalization of concessions It is fully reciprocal, since unconditional most-favoured-nation treatment is predicated on like treatment in return.'

A country which has a single tariff and therefore treats all imports on an equal basis should, however, be entitled to receive the benefit of any concessions, much as another country having unconditional most-favoured-nation rights under treaty

trade and leave no scope for the operation of the principles of equal treatment and comparative advantage.

It is necessary, moreover, to prevent discrimination against Indian exports through methods of levying duties or charges, or miscellaneous measures like prohibitions and licensing systems, internal excise and sales taxes, mixing regulations, sumptuary laws and sanitary regulations, or customs formalities and transit delays, and all the various forms of administrative protectionism, besides conditions governing the residence, travel and operations of Indian business men in foreign lands. This could be done by following the practice adopted in many recent treaties of applying the most-favoured-nation clause specifically to 'the method of levying all duties or charges as well as with respect to all rules and formalities in connexion with importation and exportation, to duties or charges imposed on exportation, to transit, warehousing, the trans-shipment of goods, as well as official charges applicable to these various operations '[1] as also to stipulate for national or most-favoured-nation treatment in respect of all internal taxes, fees, charges, or exactions. One of the most important provisions in the recent American agreements against indirect protectionism is the general clause which makes any measure that tends to nullify or impair any object of an agreement subject to representation by the other party with a view to arriving at a mutually satisfactory adjustment of a matter.

Unless approximate equality of treatment is secured in respect of non-tariff and administrative devices of restriction, there is no real observance by foreign States of their obligation to grant most-favoured-nation treatment to Indian exports. And if the important foreign countries could be persuaded to agree to grant equality of treatment in respect of such matters as quantitative limitations and exchange allocations, besides tariffs, there would be little left to be desired in the way of export advantages abroad. For, the aim of Indian commercial policy should be no more than to create conditions of fair commercial competition by mitigating discrimination as far as possible. India should claim no special favours and grant none. She should seek equality, not preferences and privileges. She should demand treatment no worse, and no better, than

[1] Trade Agreement between the United States and France, 1936, Article I, 3

is accorded to any other foreign country in respect of such forms of trade control as admit of applying the principle of equality in some form.[1]

A detailed study of the export and import trade of India with each country, of the conditions affecting the entry of Indian products into foreign markets in respect of the multiple methods of restriction and discrimination, as well as of the regulations under which Indian business men conduct their operations abroad, would be necessary to indicate the precise scope of mutually profitable trade agreements with important countries. Such a study may best be undertaken by the Economic Adviser to the Government of India and his staff. Only a few general observations, besides those already made, may be added here.

It may be found in certain cases that tariffs present an unimportant obstacle to Indian exports. The 'freezing' of foreign free lists may here provide a safeguard against further raising of tariff barriers, and should be the more valuable in proportion as liberalization of quotas is secured.

On the side of India, it may be necessary to lower the margin of preference for some United Kingdom imports in which particular foreign countries are vitally interested, as principal suppliers, as well as to make some tariff reduction in other cases. Reductions of the tariff may often be found difficult, either because of the importance of customs as a source of central revenue, or because the tariff affords protection to Indian industries which have grown up under its shelter

[1] A Preliminary Commercial Agreement has been concluded between the Governments of the Union of South Africa and India by an exchange of Notes dated 8 March 1938 The Agreement provides for reciprocal most-favoured-nation treatment in respect of customs duties and other internal taxes and charges levied on imports, and in all matters pertaining to the administration thereof, and any eventual form of quantitative regulation, licensing or foreign exchange control Exemptions from most-favoured-nation treatment are made as regards the preferential treatment accorded, or to be accorded, by either Government to other parts of the British Empire The Agreement came into force on 29 March 1938 and will remain in force until superseded by a more comprehensive Commercial Agreement or until the expiration of three months from the date on which notice of termination is given by either Government

The Indo-Japanese Treaty, signed on 12 July 1934, however, provides for mutual most-favoured-nation treatment on more customary lines 'Articles produced or manufactured in the territories of one of the High Contracting Parties, on importation into the territories of the other, from whatever place arriving, shall not be subjected to duties or charges other or higher than those imposed on like articles produced or manufactured in any foreign country' (Article 2)

without formally receiving protection, or because the tariff is already moderate. Sometimes it might be possible to secure a part of the necessary 'concessions' on exports by a binding of the existing tariff treatment for the period of a proposed agreement. But altogether the question is likely to involve considerable difficulty and complexity.

There appears to be an erroneous belief in some minds that a policy of tariff bargaining is inconsistent with the full maintenance of the unconditional most-favoured-nation clause. It should have been clear from the above that this belief, where it exists, is based on a misunderstanding of the real significance of the clause Bilateral agreements containing the unconditional most-favoured-nation clause have been frequently employed as a means of bargaining for reduction of tariff and other trade barriers. The usual method is to grant reduction of tariffs on items of which the other party to an agreement is the principal supplier. Though the reductions are extended to most or all countries, their major benefit accrues to the principal supplier, who is, therefore, prepared to reciprocate in a similar manner. As has been already observed, this policy of tariff bargaining with the unconditional most-favoured-nation clause underlies the trade agreements concluded by the United States since 1934 under the Reciprocal Trade Agreements Act of that year. The United Kingdom, too, is making use of the same policy in her agreements with many foreign countries

The policy outlined above in its essentials involves some departure from the existing position of India's single autonomous tariff It implies, in the first place, the giving up of some part at least of the tariff autonomy—the power to regulate the tariff at will and without reference to any outside party—that India enjoys at present It involves, secondly, the assuming of power to discriminate against the trade of countries which subject Indian exports to flagrant discrimination, somewhat on the lines of the penalization provisions of the Tariff Act, 1930, of the United States Section 338 of that Act provides for the imposition by proclamation of the President, whenever he finds that the public interest will be served thereby, of new or additional rates of duty not to exceed fifty per cent *ad valorem* or its equivalent, on any or all products

of any foreign country which discriminates against the commerce of the United States 'in such manner as to place the commerce of the United States at a disadvantage compared with the commerce of any foreign country'. It will be readily recognized how the present form of operation of the unconditional clause has failed in its essential purpose: whereas India has granted equality of treatment to imports from all sources, she has failed to secure the same equality of commercial opportunity for her export trade. What is required is no radical departure from the fundamental principle of the clause, but some reinforcement of the existing policy by acquiring the power to combat discrimination by discrimination in order to establish equality (or a larger measure of equality on the other side) against equality (on this side). To bargain on equal terms with other countries India may have to adopt surtaxes or maximum tariff rates of some kind corresponding to their maximum or bargaining tariffs.

It must at once be emphasized that, for reasons already detailed, this policy is of only limited usefulness, given the state of India's balance of trade with many important countries. But the mere volume of imports and exports is not always a sure index of the relative intensity of demand of two countries for each other's products, and the existence of the power to discriminate may exercise, at any rate, a moderate measure of restraint on the immoderate discrimination practised by *some* foreign countries.

Discriminatory treatment in the Indian tariff should, of course, be an extreme penalty reserved for sparing use in exceptional cases of substantial discrimination. No rigid criterion may here be invariably applied. The content of discrimination such as may justify the application of the penal powers would have to be carefully determined after close attention to all relevant circumstances, because any crude attempt to divert trade and bilateralize it would spell simple disaster for Indian exports.[1]

[1] Any doubts about the essential soundness of the view expressed here should be removed by a little reflection over the dismal failure of the trade diversion policy initiated in May 1936 by Australia—which in many respects is in a similar economic predicament to India—with the object of diverting imports from bad to good customers The following statement affords an illuminating commentary on the general outcome and lesson of that experiment 'The net effect of this Trade Diversion policy supposed to be directed against the bad customers was to

In conclusion, it may be pointed out again that the modest advance suggested above promises no spectacular gains in export trade, though it may help to palliate a few of the more stubborn obstacles to its progress in certain cases.

The above policy may not be capable of being fully worked inside the strict framework of the existing Indian constitution. But a start on its lines may be made. And, at any rate, this analysis of the proper ends and means of commercial policy for India in the light of the basic facts of her economic position and the general setting of present-day national economic and trade policies may not be altogether without use.

4. India's Foreign Trade Policy in Relation to the United Kingdom

What is to be said now about the future of India's trade relations with the United Kingdom? In particular, should India conclude a trade agreement with that country on the basis of reciprocal exchange of preferences, to replace the Ottawa Agreement?

A Basic Assumption

It may at once be said that India should prefer the old triangular basis of trading with the United Kingdom which existed before the adoption by that country of the twin systems of Imperial preference and protection. But, as things are, there appears little likelihood of the United Kingdom turning back from the path of economic and commercial policy she has chosen for herself. British protection and a general system of preferences among Empire countries may then be taken for granted: the definite change in Britain's fiscal policy remains as it was at the time of the Ottawa Conference, the underlying assumption in any reconsideration of the future of India's trade relations with herself.

change an excess of commodity exports of roughly six million into an excess of commodity imports of very nearly two million, the exact opposite of what the policy set out to do. In addition to this general result, which for a country like Australia, which needs to accumulate a substantial surplus on her commodity trade to meet her external financial obligations, was particularly embarrassing, a number of particular difficulties revealed themselves, which tend to demonstrate, if demonstration is needed, the danger of trying to disturb the processes of trade on the basis of crude statistical calculations'—*Economica*, February 1938, article by N. F. Hall on '"Trade Diversion"—an Australian Interlude'.

Given the present policy of the United Kingdom—that policy, as already pointed out, has been and continues to be a most important influence on the general trend of commercial policy in the world—it is doubtless to India's interest to align her policy with that of the former in respect of their mutual trade relations. In the days of freer and wider markets, it might have been possible for India to steer a solitary course, independent of the general policy of the Empire, relying upon the strength of her position and the favourable fiscal policies of foreign States. It is not the part of wisdom now, in the face of the restrictionist temper of the world, of depressed prices, reduced trade, and contracted markets to cut adrift from the one large bloc of comparative freedom of trade available to India to join, even if adherence to it should involve some measure of discrimination against foreign nations.[1] For, so long as the present policy of the United Kingdom remains unaltered, India is likely to lose rather than gain by standing apart. The general protective *cum* preferential policy of the United Kingdom rather than the United Kingdom-India Agreement as such is, if anything, responsible for the discriminatory policies of foreign States. By severing her connexion with the preferential system of the United Kingdom, India would lose in the United Kingdom market, in the Empire markets, and would largely continue to lose in the foreign countries what market she is already losing as a general result of the United Kingdom's Imperial preferential policy.

Bilateralism and Indo-British Trade

Again, if bilateralism is to persist, India could best conform to the trend in the case of the United Kingdom. From the

[1] Such discrimination involved by the grant of preferences to the United Kingdom, though it is none the less real and is therefore to be avoided as far as possible, is covered by the recognized exceptions to the most-favoured-nation clause, and may not by itself furnish a *casus belli* for retaliatory measures specially directed against Indian trade with foreign countries

But it is possible to exaggerate the significance of general recognition of the legitimacy of this exception It is undeniable that a policy of receiving or granting extensive preferences in respect of an important country is inconsistent with the objective of equality of treatment · to get real equality, India must give real, and not mere nominal equality of treatment to foreign countries in her own tariff The reason why a limited breach of this otherwise unexceptionable rule may be partially condoned in the case of the United Kingdom is that a practical commercial policy must inevitably be based on a compromise between what is ideally desirable and actually attainable the pace of progress towards equality of treatment in international commercial relations is not set by India alone

United Kingdom of all important countries India, until 1935-6, imported more, far more (if invisible imports of commercial, banking, financial, political and military services are included) than she exported to her. A bilateral treaty, which in the adjustment of the range and margin of tariff preferences took due account of this state of the total balance of trade and transactions between the United Kingdom and India, should tend to encourage Indian exports more than imports This assumes readiness on the part of the United Kingdom gradually to assimilate her trade relations with India to the new bilateral principle that she herself seeks to enforce in her trade relations with other countries. So that, while the United Kingdom is allowed greater access to the Indian market, she grants at the same time relatively still greater facility of entry into her own home market to Indian exports

Preference and Agricultural and Manufactured Goods

It will be pertinent to observe in this connexion that an equal margin of preference on agricultural and manufactured goods will, in general, be more helpful to the former than to the latter Primary products are, on the whole, more standardized than finished goods, and their markets are larger and work on smaller profit margins than the markets of the latter. A small special advantage can therefore cause a quick diversion of demand to the favoured source or sources of supply This process has been observed to have occurred in the case of a number of Empire products receiving preference like groundnuts, linseed, pig lead and others The markets in finished goods, on the other hand, are more specialized and distinctive, and less competitive A relatively wider measure of price differential, other things being equal, is therefore required to effect a given shift in demand than in the case of primary products [1]

Long Term Considerations

There is, on the other hand, a consideration of a contrary character which in the long run reduces the significance of the above factor While the range of foreign imports into India

[1] On the other hand, as pointed out already, the real sacrifice involved in the grant of preferences is likely to be greater in the case of manufactured goods than of raw material imports

which compete with and are substitutable by imports from the United Kingdom is very large, the amount of foreign imports into the United Kingdom which can be replaced by corresponding imports from India is much smaller. The reason lies broadly in the relative ease with which manufacturing production can be expanded to take advantage of better opportunities for sale in particular markets against the comparative inelasticity of supply of agricultural products. The demand for the products of agriculture, again, may not be as elastic as the demand for industrial goods, *in a single market.* India may, therefore, have permanently to depend upon a wide distribution of her export products among many and scattered markets.

There is, besides, another long term factor which appears to confirm this last conclusion : with a stationary or declining population in the long run, and a non-expansive consuming capacity in consequence, the relative importance of the United Kingdom as a market for the expanding agricultural production of the overseas Empire should diminish as time passes.

However, the importance of these long term considerations as a factor in the framing of trade policy in the immediate or near future is likely to be small.

Broad Outlines of a Trade Agreement with the United Kingdom

What, in broad terms, should be the actual lines of a mutually profitable trade agreement between the United Kingdom and India ?

On the side of exports from India, the articles which do not receive preference in the United Kingdom at present are mostly raw materials of industry.[1] Though preference might in some cases be helpful to Indian exports, in most cases it would not appear to be an obviously practicable proposition from the point of view of the United Kingdom.

Again, three important commodities have dropped out of the possible scope of any fresh agreement through the separation of Burma, namely teakwood, pig lead, and paraffin wax, while the importance of preference on rice is now considerably less. Moreover, until the separation of Burma, tea formed

[1] e.g. textile materials, ores, raw hides and skins, etc.

nearly half, and now forms an even larger proportion, of the total Indian exports of all preferred commodities. In exports of preferred articles to the United Kingdom the importance of tea is still greater. But tea has been subject to regulation all these years, and the advantages of this regulation have, on the whole, outweighed the benefit of the preference. The preference has also been reduced from 50 per cent of the general rate at the beginning to 25 per cent of the general rate now.[1] The international regulation scheme for tea continues in force and is likely to reduce appreciably the possible value of the preference during the course of its operation.

In view of the above, it would appear to be best, taking all the circumstances into view, to have a system of judiciously limited, discriminate and selective preferences on the side both of the United Kingdom and India Thus, India may obtain preferences, firstly, on such goods as linseed, woollen carpets and rugs, oil-cakes[2] and bran and pollard, ground-nuts and vegetable oils[3] and other commodities in respect of which preference is likely to be of some definite advantage by way of extending India's share of the United Kingdom market It might be noted that the other Empire countries are not, in general, primarily interested in such commodities. The principal interest in securing a preference on them is that of India.

Secondly, India should share in the preferences granted to other Empire countries in respect of commodities in which they are more vitally interested than India is Important among such commodities are tobacco, coffee,[4] wheat and other cereals, pulses, manures and bones And since a position of discrimination between another Empire country and India could not be contemplated, India would also naturally

[1] In April 1933, the general and preferential tariff rates were 4d. and 2d. respectively After two successive increases they stand now at 8d and 6d respectively

[2] The exports of this commodity may not be desirable from the point of view of the fertility of the soil, but if effective demand for it has not sufficiently developed in the country, the proper remedy is not to restrict the opportunities for export, or to relax efforts to enlarge foreign outlets

[3] Attention may be invited to the recommendation of the Sub-committee of the Imperial Council of Agricultural Research for an extension of the scope of the United Kingdom tariff to cover all foreign imports of vegetable oils and fats See above Chapter V, 4

[4] The existing margin of preference has proved inadequate, as seen above Chapter V, 4

participate in preferences granted to other Empire countries on other commodities in which she has a relatively minor interest. But the significance of the incidental extension to India of such preferences should be properly appraised in considering the extent of counter-concessions that India should make in return.

The latter might take the form of preferences to United Kingdom goods belonging to *a few* really competitive lines of imports selected, say, from among the third group of commodities considered at the end of Chapter VII, where a preference might confer substantial benefit on the United Kingdom.[1] It would be of little use to enter into details here, as, for the most part, the view the United Kingdom side take of the importance of particular preferences would largely determine the scope within which the grant of preferences might be considered.

Moreover, the due measure of importance in this connexion of the substantial preferences on steel and cotton goods in the Indian tariff should be taken into account in any attempt to assess and square the relative value of preferences exchanged. Now, on the one hand, it has been held that the lower duties on United Kingdom goods in such cases are differential rather than preferential in character : they are justified by considerations of discriminating protection.[2] On the other hand, it has been suggested that whatever the manner of their introduction, in effect they constitute preferences in favour of the United Kingdom fully as much as other preferences. A fair statement of the position according to the study of these duties in the last chapter would appear to be that they partake both of a differential and preferential nature.

There is no doubt, however, as to the benefit conferred by them on United Kingdom trade. This has received full recognition by their inclusion as definite obligations assumed

[1] Now it has been sometimes suggested that India might in return give preferences on United Kingdom goods of which substantial proportions, say 65 per cent or more, are imported from the United Kingdom Such comparatively painless schemes of preference might provide almost an ideal solution from India's point of view—a solution which saves the face of Imperial preference, at the same time secures much of the benefit it has to offer to India, but involves no proportionate expense or comparable sacrifice They are, however, unlikely to commend themselves to the other party

[2] The Indian Delegation completely excluded them from consideration on this ground

by India in the Supplementary Indo-British Trade Agreement. Now it has been seen in the last chapter that the considerations in return for these undertakings by India have in part ceased to exist (in the case of steel). This would suggest an abrogation of the purely preferential parts of the lower steel duties in favour of the United Kingdom particularly in the case of galvanized sheet, which involves the Indian Government revenues in appreciable loss.

It has been seen how the differential duties on cotton have an important preferential element in them. Their real justification must be looked for not only in considerations of discriminating protection but also in the counter-benefits secured in return, namely encouragement of the use of Indian raw cotton in the United Kingdom and preference and participation in quotas for exports of Indian cotton piece-goods in Colonial markets. The reciprocal arrangements in regard to cotton remained at first outside the main framework of the Ottawa Agreement It appears that they will now form a vital and integral part of any new agreement that may be made to replace it Recently, negotiations at Simla between the Lancashire Cotton Delegation and the unofficial Indian advisers failed to result in a satisfactory settlement of the terms of a new cotton pact. The essential reason for the failure of the cotton talks may be said to be the unwillingness of the Indian side to concede a market for United Kingdom goods wide enough, in the opinion of the Lancashire Delegation, to entitle the former to claim the enlarged outlet for Indian raw cotton demanded by them The line of immediate conflict of interests is not drawn entirely between Lancashire and India as a whole, but cuts athwart the raw cotton grower and the cotton manufacturing industry in India itself Should Lancashire be in a position considerably to increase her offtake of Indian cotton, the interest of the agricultural producer of cotton in India would be clearly served by the Indian Cotton Industry accommodating the claims of Lancashire in a satisfactory manner The home cotton industry, however, provides a much larger market for the Indian cotton producer than Lancashire, and is also much more important than the latter as a prospective buyer. The immediate conflict of interests between the cotton producer and manufacturer is therefore

of small significance in the long run. And, moreover, the process of decline of Lancashire imports could at best be retarded but not completely checked: an agreement with Lancashire would provide no durable solution of the problem of the Indian raw cotton surplus.

5. Conclusion

Preoccupation with the details of an agreement, even with a customer as important as the United Kingdom should not distract attention from the factors of fundamental importance to the future of India's export trade.

International Co-operation

The success of any policy of expansion of trade is vitally bound up with the restoration of international co-operation.

The vast economic injury done to the nations of the world by the great set-back to international economic specialization has been apparent throughout these pages. The greatest need of the world at the present moment for continued economic progress is to restore the essential foundation of international security and co-operation.

The view expressed by the Gold Delegation of the Financial Committee of the League of Nations as long ago as 1932, is truer now than ever before: 'Without some measure of political settlement leading to renewed confidence in International economic and financial relations, there can be no secure basis for the restoration and improvement of world trade and finance' (*Final Report*, 1932, par. 232). But on the other hand too, a return of economic prosperity may make easier a return to political sanity. An easing of economic pressure should contribute towards relief of political tension.[1]

India in her own best interest should be ready to share in a joint endeavour to this end. For the present, she can best play her part in the game by maintaining adherence to the unconditional most-favoured-nation clause, trying to have it enforced in respect not only of tariffs, but of quantitative restrictions and foreign exchange allocations in relation to

[1] At the moment, however, the lead appears to have passed definitely from the economic to non-economic forces the readings of the political barometer condition the tempo of restrictionist or liberalizing trends in economic policies

Indian exports, and, in the interest of effective action in this direction, to limit the scope and margin of the reciprocal preferences with the United Kingdom to the extent indicated by clear necessity, or by prospects of definite and substantial advantage. It will be noticed that this policy is in essentials similar to that being followed by the United States of America. That country has consistently refused to be a party to the current type of exclusive reciprocal trade agreement and has resolutely pursued the objective of securing what small advance is possible on liberal lines amid the general illiberal trend of commercial policies. India would do well to follow this straight lead which eminently suits her position as a great exporting country.[1]

[1] The last two sections of this chapter have been left unaltered as they were written before the terms of the new Indo-British Agreement became known cf *Indian Journal of Economics*, April 1939, my article on 'Commercial Agreements and India'

THE NEW INDO-BRITISH TRADE AGREEMENT

A RESOLUTION recommending the termination of the Indo-British Trade Agreement concluded at Ottawa on 20 August 1932 was passed by the Indian Legislative Assembly on 30 March 1936. The Supplementary Agreement of 9 January 1935 was also to continue in operation for the term of the Ottawa Agreement and expire simultaneously. In pursuance of the Assembly's recommendation, six months' notice of denunciation under Article 14 of the Agreement was given to His Majesty's Government on 13 May 1936. It was announced in a Commerce Department *communiqué* dated 20 October 1936 that pending the negotiation of a fresh Agreement; the Agreement then in force would continue in operation subject to termination at three months' notice on either side. It is not necessary to trace here the course of the protracted negotiations lasting for two and a half years which resulted in the conclusion in March 1939 of a new Agreement to replace both the Ottawa and Supplementary Agreements. The negotiations on the Indian side were conducted in close consultation with unofficial advisers from the start. They submitted altogether about fourteen *Reports* to the Government. The final *Report* was dated 5 September 1938, in which the revised proposals of the British Board of Trade were rejected. Meanwhile, an Indian Delegation consisting of the unofficial advisers and Sir Muhammad Zafrullah Khan, Commerce Member to the Government of India, had visited London in the autumn of 1937 without bearing any immediate fruit, and a Lancashire delegation had held unsuccessful parleys to arrive at a mutually agreed solution of the textile angle with the unofficial Indian advisers at Simla in May 1938. Sir Muhammad had been to London three times in an earnest endeavour to secure a satisfactory deal. After the failure of efforts to conclude an agreement with the concurrence of unofficial advisers, the Government of India themselves pursued the trade talks with His Majesty's

Government and on 20 March 1939, a Trade Agreement was signed between the two Governments. On 27 March, Sir Muhammad's motion for approval of the Trade Agreement was negatived by the Legislative Assembly, after full discussion, by 59 votes to 47. On 14 April, Sir Muhammad brought forward a Bill to amend the Indian Tariff Act of 1934 in order to give effect to the provisions of the Trade Agreement. The Commerce Member explained that the Bill was meant to carry out the understanding embodied in Article 16 of the Agreement that pending its coming into force the two Governments would apply its provisions as far as might be possible The motion for leave to introduce the Bill was rejected by 54 votes to 39—a rare event in the annals of the Assembly! The next day the Tariff Bill was again brought up before the Assembly in an amended form with the recommendation of the Governor-General. Permission to move an amendment seeking to restore the pre-Ottawa position in respect of the preferences was refused by the Governor-General. The Bill was accordingly rejected by 50 votes to 37.[1] Thereupon it was certified by the Governor-General and on 18 April was passed as certified by the Council of State.

It had already been announced by the Commerce Member that the Ottawa Agreement would terminate on 31 March 1939, and the new Agreement provisionally came into force from 1 April 1939 under Article 16 which has been already referred to. The present Agreement shall continue in force until 31 March 1942, if six months before that date notice of termination shall have been given by either party to the other, or until the expiry of six months from the date on which a notice of termination is given.

I MAIN PROVISIONS OF THE TRADE AGREEMENT

The Agreement contains in all sixteen Articles As between the United Kingdom (apart from the Colonies) and India the

[1] A feeling remained in responsible quarters that the Bill would have been passed if the Government had announced in advance, as they did at the time of the Ottawa Agreement, that they would accept the verdict of the Assembly, whatever it might be This feeling was crystallized in the leading article of the *Statesman*, 18 April 1939 The knowledge that the Agreement was a *fait accompli* and the approval of the Legislature an inconsequential affair certainly did not make for its favourable reception

Agreement provides, on the side of the United Kingdom, for the maintenance of various margins of preference for Scheduled imports of Indian goods into the United Kingdom; continuance of free entry for Indian goods which are now admitted free, with consequent preference, so long as foreign imports of such commodities are subject to duty, but no guarantee thereof; free entry from all sources of a few other commodities: on the side of India, for the grant of a preference mostly of 10 per cent or 7½ per cent on United Kingdom imports. Besides, there are reciprocal concessions embodied in Article 10 in regard to the export of Indian raw cotton to the United Kingdom and the import of British cotton piece-goods into India which form in many respects the pivotal part of the Agreement. Preferences have also been exchanged on a wide range of goods prescribed in two Schedules with the Colonies, Protectorates, Protected States and certain British Mandated Territories to which India has, besides, agreed to give most-favoured-nation treatment.

Exchange of Preferences

Preferences at varying *ad valorem* rates have been provided in the case of the following commodities: 10 per cent for bones, castor seed, coir yarn, cotton yarns (unbleached), up to number 40 count, goatskins (raw), gram or chick pea, ground-nuts, hardwood, leather (undressed hides other than sole leather and undressed skins), linseed, magnesite, oil-seed cake and meal, paraffin wax, sandalwood oil, soya beans, and spices; 15 per cent for castor oil, linseed oil, coconut oil, ground-nut oil, rape oil and sesamum oil, granite sets and kerbs, leather (dressed), and cordage, cables, ropes and twine of jute; 20 per cent for coir mats and matting, cotton manufactures and jute manufactures other than cordage etc. The following commodities have received specific margins of preference: magnesium chloride, 1s. per cwt.; coffee, 9s. 4d. per cwt.; tea, 2s. per lb.; rice, unhusked and husked (not including broken rice), 2s. 3d. per lb.; woollen carpets, carpeting and floor rugs—hand-made, 4s. 6d. per sq. yard exclusive of fringes; other kinds, 20 per cent *ad valorem*.

Lac, raw jute, myrobalans, mica slabs and splittings, and Indian hemp have been guaranteed free entry from all sources.

Among commodities which enjoy an unguaranteed preference are barley, pulses and minor food grains besides manures (other than bones), pig lead, etc.

India has granted preferences of 10 per cent on a number of items of imports ($7\frac{1}{2}$ per cent on motor-cars, on motor cycles, and scooters—new additions to the preferential list—and cycles and omnibuses, etc.) which are considered in more detail in the following section.

The Supplementary Agreement of 9 January 1935 has not been renewed as arrangements in respect of cotton, and iron and steel have been incorporated in the text or appendix of the Agreement, and perhaps also because the general provisions in regard to the furtherance of industrial co-operation through exchange of raw or semi-finished Indian products for finished British goods were found to be of little direct consequence.

The Cotton Article

In Article 10 of the Agreement are contained the terms of exchange of Indian raw cotton for United Kingdom cotton piecegoods. His Majesty's Government in the United Kingdom undertake to continue to use all possible efforts to stimulate the consumption of Indian cotton in terms similar to those embodied in the Mody-Lees Pact; note the desire of Indian cotton growers that as much as possible of their production of short and fair staple cotton should be absorbed in the United Kingdom; invite attention to the Lancashire Indian Cotton Committee's sympathy with that desire and their intention fully to assist in its fulfilment; but recognize that success in achieving that aim is bound up with the continued pursuit of a policy of improving the quality and staple of Indian cotton exported to the United Kingdom.

To turn to more specific provisions, the advantage offered to the United Kingdom consists in the immediate reduction from the date of the Agreement coming into force of the rates of duty on United Kingdom cotton piecegoods to the following 'basic rates': $17\frac{1}{2}$ per cent (instead of the existing rate of 25 per cent) *ad valorem* on printed goods, 15 per cent (against 20 per cent) *ad valorem* or 2 annas $7\frac{1}{2}$ pies (against $3\frac{1}{2}$ annas) per lb, whichever is higher, on grey goods; and 15 per cent (in place of the present rate of 20 per cent) *ad valorem* on all

others. Moreover, if in any cotton piecegoods year (1 April to 31 March following) United Kingdom imports do not exceed 350 million yards, the duties charged after the end of that year and until the end of any cotton piecegoods year in which such imports exceed 425 million yards are to be reduced still further by 2½ per cent *ad valorem* with a proportionate reduction in the alternative specific duty on grey goods.

On the other hand, if in any cotton piecegoods year, imports from the United Kingdom exceed 500 million yards, the rates of duty in the following cotton piecegoods year may be increased above the basic rates to such extent as may be deemed necessary for the purpose of restricting imports of such goods during the year to the 'maximum yardage figure' for the preceding cotton piecegoods year, but shall be reduced to the basic rates (or 2½ per cent below the basic rates) after the end of any cotton piecegoods year in which the total quantity of such imports into India has not exceeded 425 million yards (or 350 million yards).

The advantages to India are embodied in the provisions relating to the calculation of the maximum yardage figure. This expression means in relation to any cotton piecegoods year, a maximum of 500 million yards, reduced by the 'appropriate' figure in case in the corresponding cotton year (1 January to 31 December following) there is a 'deficiency' in United Kingdom purchases of Indian Cotton. A 'deficiency' is defined as the amount by which United Kingdom imports of Indian cotton of all sorts fall short of 500,000 bales during the cotton year ending 31 December 1939, 550,000 bales during the cotton year ending 31 December 1940, and 600,000 bales during every subsequent cotton year. And the appropriate reduction (below 500 million yards) in the imports of United Kingdom cotton piecegoods in order to arrive at the maximum yardage figure in any cotton piecegoods year is 25 million yards for every 50,000 bales (or less) of the deficiency in the corresponding cotton year, provided that the deficiency does not exceed 100,000 bales in the cotton year ending 31 December 1939 and 150,000 bales in any subsequent cotton year.

Certain 'minima' are also prescribed for the import of Indian cotton into the United Kingdom in the following

terms ; if the imports of Indian raw cotton into the United Kingdom fall below 400,000 bales in the cotton year ending 31 December 1939, or in the cotton year ending 31 December 1940, and 450,000 bales in any other cotton year, the duties charged on imports of United Kingdom cotton piecegoods into India in the following cotton piecegoods year may be increased above the basic rates to such extent as the Government of India may, after consultation with His Majesty's Government, determine.

There is, on the other hand, a special reward for the United Kingdom cotton industry if its purchases of Indian raw cotton exceed 750,000 bales in any cotton year : the rate of duty charged on imports of United Kingdom printed cotton piecegoods into India in the following cotton piecegoods year shall be reduced to a level not exceeding the duty charged in that year on other imports of United Kingdom cotton piecegoods. And, further, in that cotton piecegoods year, or in any following cotton piecegoods year during which the reduction of duty on prints remains in force, any excess up to a maximum of 25 million yards in imports of United Kingdom cotton prints over imports in the cotton piecegoods year immediately preceding that in which the reduction first took effect shall not be taken into account for the purpose of determining whether the medium or maximum yardage figure (425 or 500 million yards) has been exceeded.

Pig-iron and Steel

On the same day on which the Agreement was signed it was agreed on behalf of the Government of India in a Letter from the Indian Signatory that notwithstanding the guarantee of duty-free entry to Indian goods admitted free at the time of the Agreement, it would be open to His Majesty's Government in the United Kingdom, after consultation with the Government of India, to impose after 31 March 1941 a customs duty on imports of Indian pig-iron if after the expiry on that date of the Iron and Steel Protection Act, 1934, duties were applied to articles of iron and steel imported into India substantially less favourable to the United Kingdom than those provided for in that Act.

2. The Trade Agreement Considered

Proceeding to a consideration of the terms of the new Agreement it appears that on the side of Indian exports the scope of preferences is substantially similar to that under the Ottawa Agreement. The average annual value of total exports from British India (including the maritime States for certain preferred commodities but excluding Burma) to all countries and to the United Kingdom during the triennium 1935-6 to 1937-8 was Rs. 164·38 and Rs. 55·31 crores respectively. During the same period, exports to all countries and to the United Kingdom of exports enjoying preference, whether guaranteed under the new Agreement or not, was Rs. 98·69 and Rs. 40·56 crores per annum respectively. The proportion of total exports to the United Kingdom entitled to preference was thus 73 per cent on an average during the three years.

On the other side, it has been estimated that imports of preferred goods from the United Kingdom were reduced from a value of Rs. 18·75 crores in 1935-6 under the old Agreement to Rs. 7·68 crores on an average during the three years 1935-6 to 1937-8 under the new Agreement. During the same period the value of total imports from all countries and from the United Kingdom was Rs. 137·25 and Rs. 47·78 crores respectively, and of now preferred imports from all countries was Rs. 16·54 crores. The proportion of imports from the United Kingdom subject to preference under the new Agreement was thus 16 per cent on an average during the triennium ending 1937-8.

(a) *Exports*

In view of the somewhat detailed analysis of trade in individual commodities already given, it may suffice to recount here the more important conclusions reached so far, to indicate the precise scope of the new Agreement on the basis of the final figures for 1937 or 1937-8, and to add a few general observations on the bearing of the analysis for the future.

The preferred exports are conveniently divided into four groups on the same basis as that adopted in Chapter IV, *minor*

commodities previously bracketed together in Group V being also redistributed to their proper group.

The four groups of preferred exports, then, are :—I : jute manufactures, hides and skins (tanned), goatskins (raw), coir yarn and mats and matting, castor seed ; II : linseed, woollen carpets and rugs, oil-seed cake, and pig-iron ; III : tea, ground-nuts ; IV : rice, tobacco (unmanufactured and manufactured), coffee, paraffin wax, vegetable oils, spices, pulses, bones, hardwoods, magnesite, granite sets and kerbs, soya beans, barley, minor food grains and magnesium chloride.

Modifications in Scope and Margin of Preferences on Exports

It may be of interest to note the significant changes in the scope and degree of preferences on exports under the new Agreement as compared to the Ottawa Agreement.

In the first place, the separation of Burma has been responsible for the abolition of some preferences and reduction in the value of others. Pig lead, and bran and pollard and rice meal and dust no longer appear in the list of Indian exports enjoying preference. Teakwood continues to be included among the motley group of Indian hardwoods entitled to preference, but of the United Kingdom imports of this article in 1937 India contributed an insignificant proportion—only one-quarter per cent. Paraffin wax and rice, two other important commodities which had benefited largely through the operation of the preference, have receded to a secondary position with the separation of Burma, their principal exporter within the Empire : among preferred Indian exports they have dropped from the second to the fourth group. Tobacco (manufactured) has also lost considerably in importance among Indian exports to the United Kingdom, since much the greater part of cigars imported into that country from the Empire are in fact derived from Burma (23,000 lb. compared to only 9,000 lb. from India, and a similar quantity from Jamaica in the British West Indies).

Besides, the preference of 2s. per cwt. on wheat has been abolished with a view to affording freer access for American

wheat to the British market.[1] It has been pointed out in the Representation on the new Trade Agreement submitted to the Government of India by the Federation of Indian Chambers of Commerce and Industry that the margin of preference has been reduced in the case of chrome leather from 30 to 15 per cent, in the case of cordage, cables, ropes and twine made of jute from 20 to 15 per cent, and in the case of hand-made woollen carpets from 20 per cent *ad valorem* to 4s. 6d. per sq. yard. It may be remembered, however, that the changes referred to in respect of jute manufactures and woollen carpets have been in force since 1 January 1935 and were modifications in the terms of the Ottawa Agreement made presumably under Article 14, which provided for adjustments in particular rates of duty or preference by consultation and agreement with the other party.[2] Chrome leather did not have a guarantee of preference under the Ottawa Agreement, though dressed leather of Empire origin was entitled to free admission and came to enjoy a preference of 30 per cent through an increase in the duty on foreign goods, in the interests of the British home industry, to that level. It is a new addition to the Schedule of articles entitled to preference under the Agreement. The figures of export of chrome leather are not separately recorded in Indian trade returns but are included in exports of tanned hides and skins.

Other unscheduled articles which received preference in consequence of the guarantee of free entry under Article 1 of the Ottawa Agreement but have now received a guarantee of preference are bones, raw goatskins, gram or chick pea, soya beans and rice in the husk or paddy. The preference on soya beans began to accrue only from April 1935, when a 10 per cent duty was imposed on non-Empire imports of the article. The duty on foreign paddy was also raised from

[1] The abolition of this preference which has been secured with the consent of the Dominions and India forms part of the terms of the recent Anglo-American Agreement

[2] A specific rate equivalent to that on woollen carpets etc was similarly introduced on cotton and jute carpets etc with effect from the same date Other changes under the same Article include the substitution of a specific rate of £3 10s on linseed oil for the *ad valorem* rate of 15 per cent and increase in the duty on non-Empire imports of cotton lace and lace net of all kinds from 20 to 30 per cent *ad valorem*. The general rate for cotton goods imports under the new Agreement is 20 per cent *ad valorem*.

10 per cent to the present rate of 2s. 3d. per lb. from 16 April 1935, when it was equivalent to about 75 per cent *ad valorem.*

Trade in Preferred Commodities

The tables overleaf show the distribution of United Kingdom import trade and Indian export trade in respect of articles on which preference is granted to India in the United Kingdom.

Value of Preferences on Exports

At this stage a broad reference may be made to the relative effectiveness or value of preferences on different groups of Indian exports, and any significant facts about the more important individual trades.

A look at the figures of percentage of imports derived from India in Table LI and consideration of the conditions of trade in respect of particular commodities will indicate that the preference on jute manufactures, coir yarn and mats and matting, and hide and skin leather as well as raw goatskins cannot help to extend the market for Indian exports in any appreciable degree: already in 1937 almost the entire imports were provided by the Empire, indeed in most cases by India. The duty on foreign imports was applicable to such an insignificant part of the imported supply as hardly to have any effect in the direction of raising the price realized by Indian goods.

It will appear from Chapter V that preference in the past has been of little value in the case of made-up jute goods, coir yarn and mats and matting, and skin leather. The right of free entry for all these commodities should undoubtedly be valuable, and though Indian goods are now admitted free of duty, exemption from any customs duty that may hereafter be levied is not guaranteed. In respect of jute piecegoods, hide leather and raw goatskins, the preference has conferred a more or less definite advantage but is important for the future mainly as some safeguard against loss of the present strong position. Apprehensions of any serious loss from the abrogation of the duty on foreign imports are, however, without foundation, and if only free entry from all sources could be ensured there would be no cause for alarm. The preference

TABLE LI *United Kingdom Imports of Articles on which Preference is Accorded to India, 1937*

	Quantity						Value (£1,000)				
	Unit of Quantity	India (excluding Burma)	Percentage	Empire Countries	Non-Empire Countries	All Countries	India (excluding Burma)	Percentage	Empire Countries	Non-Empire Countries	All Countries
GROUP I											
Jute manufactures	thousand cwt	1,961	98	2,029	51	2,080	2,732	98	2,779	59	2,838
Coir yarn	thousand cwt	133	86	155	—	155	138	86	160	—	160
Coir mats	thousand cwt	161	99	162	1	163	275	98	275	5	280
Coir matting	million sq yds	6 7	99	6 7	0 1	6 8	357	98	357	5	362
Leather, undressed hides	thousand cwt	373	96	378	8	386	2,466	97	2,487	63	2,550
Leather, undressed skins	thousand cwt	124	73	139	32	171	2,475	90	2,616	354	2,970
Leather, dressed	thousand cwt	19 6	27	41 7	30 9	72 6	452	22	1,258	839	2,097
Goatskins, raw	millions	9 2	74	11 8	0 6	12 4	967	73	1,149	167	1,316
Castor seed	thousand tons	20 4	63	20 4	12	32 4	283	66	284	147	431
Total							10,145	78	11,365	1,639	13,004
GROUP II											
Linseed	thousand tons	192	67	193	93	286	2,772	72	2,777	1,084	3,861
Pig-iron	thousand tons	208	33	243	395	638	898	26	1,085	2,411	3,496
Oil-seed cake	thousand tons	247	37	324	342	666	1,837	42	2,402	1,877	4,279
Carpets, carpeting, floor rugs and matting	million yds	1 8	30	1 88	4 09	5 97	782	33	820	1,541	2,361
Total							6,289	45	7,084	6,913	13,997
GROUP III											
Tea	million lb	276	57	434	53	487	16,910	58	27,205	2,428	29,633
Ground-nuts	thousand tons	137	51	270	1	271	2,043	52	3,909	7	3,916
Total							18,953	56	31,114	2,435	33,549
GROUP IV											
Rice	thousand cwt	84	7	998	158	1,156	50	6	653	133	786
Cotton yarn and manufactures		—	—	—	—	—	132	4	195	3,233	3,428
Tobacco, unmanufactured	million lb	19	19	57	41	98	759	4	2,799	14,515	17,314
Tobacco, manufactured	thousand lb	9	2	42	541	583	5	1	17	536	553
Coffee	thousand cwt	23	6	187	186	373	85	7	629	645	1,274
Paraffin wax	thousand cwt	77	7	382	686	1,068	67	7	364	561	925
Vegetable non-essential oils*	thousand tons	9	5	33	39	72	177	10	942	903	1,845
Spices	thousand cwt	9	5	133	63	196	17	4	361	110	471
Pulses	thousand cwt	407	16	701	1,829	2,530	181	11	323	1,266	1,589
Bones	thousand tons	4 6	13	5 2	32 1	37 3	44	17	57	207	264
Magnesite	thousand tons	6 3	13	8 1	41 6	49 7	33	11	47	257	304
Granite sets	thousand tons	7 6	15	12 2	40 4	52 6	24	16	33	116	149
Soya beans	thousand tons	—	—	2 1	96 7	98 8	—	—	20	827	847
Barley	thousand cwt	508	3	4,308	13,868	18,176	222	3	1,763	5,503	7,266
Total							1,796	5	8,203	28,812	37,015

* These figures are the sum of figures of imports of unrefined castor, ground-nut, linseed, coconut and rape oils The small amount of imports of refined oils is omitted, the share of India being not separately available

Table LII *Indian Exports of Preferred Articles, 1937-8*

	Unit of Quantity	Quantity: United Kingdom	Quantity: Percentage	Quantity: Other Countries (excluding Burma)	Quantity: All Countries (excluding Burma)	Value (Rs lakhs): United Kingdom	Value (Rs lakhs): Percentage	Value (Rs lakhs): Other Countries (excluding Burma)	Value (Rs lakhs): All Countries (excluding Burma)
Group I									
Jute manufactures—gunny bags	millions	62	12	500	562	1,14	9	10,98	12,12
gunny cloth	million yds	158	11	1,483	1,641	1,60	10	13,74	15,34
Hides, tanned	thousand tons	16 3	96	0 7	17	3,08	96	13	3,21
Skins, tanned	thousand tons	6	91	0 6	6 6	2,91	90	30	3,21
Goatskins, raw	thousand tons	4 8	26	13 8	18 6	94	31	2,13	3,07
*Coir manufactures	thousand cwt	439	36	817	1,256	90	47	97	1,87
†Castor seed	thousand tons	13	30	31	44	20	30	47	67
Total						10,77	27	28,72	39,49
Group II									
Linseed	thousand tons	175	77	52	227	2,74	77	83	3,57
‡Oil seed cake	thousand tons	221	55	178	399	1,54	57	1,15	2,69
Pig-iron	thousand tons	242	38	387	629	1,02	39	1,58	2,60
Woollen carpets and rugs	million lb	8 4	76	2 7	11 1	76	75	26	1,02
Total						6,06	61	3,82	9,88
Group III									
Tea	million lb	288	88	39	327	21,33	88	2,73	24,06
§Ground nuts	thousand tons	162	23	543	705	2,43‖	23	7,89‖	10,32
Total						23,76	69	10,62	34,38
Group IV									
Rice	thousand tons	3 9	1	220·6	224 5	4	2	2,53	2,57
Tobacco, unmanufactured	million lb	21 1	50	21 4	42 5	75 1	72	31·9	1,07
Tobacco, manufactured	thousand lb	33	3	988	1,021	1 6	40	5	6 6
Coffee	thousand cwt	28 6	21	106 5	135 1	13 6	24	39	52 6
Paraffin wax	thousand cwt	4	3	7 9	11 9	19 6	38	31·7	51 3
Vegetable oils	million gal.	1 2	24	3 8	5	17·1	37	29 2	46 3
Spices	thousand cwt	5	3	191	196	4·6	6	69 3	73 9
Pulses other than grams	thousand tons	16 3	30	41 9	58 2	15 5	24	50 7	66 2
Bones	thousand tons	13 9	17	119 2	133 1	6 5	7	89 3	95 8
Cotton yarn and manufactures		—	—	—	—	26 3	5	5,61 3	5,87 6
Magnesite	thousand cwt.	137 2	80	34 5	171 7	6 6	87	1	7 6
Granite sets and kerbs	thousand tons	10 4	100	—	10 4	1 9	100	—	1 9
Soya beans	thousand tons	(a)	(a)	(a)	(a)	—	—	1 1	1·1
Barley	thousand tons	23 2	66	11·8	35	18 6	69	9 6	28 2
Minor food grains		(a)	(a)	(a)	(a)	2 5	4	55 9	58 4
Total						2,14	15	12,28	14,41

* Exports from Travancore are included
† Exports from Kathiawar are included
‡ Exports of ground nut cake from Kathiawar are included
§ Exports from Kathiawar are included

‖ Figures of the value of ground nut exports from Kathiawar to the United Kingdom and other countries are taken as proportionate to quantity
(a) Not separately shown in trade returns

on castor seed has not succeeded in checking the increasingly intense competition from Brazil. Its maintenance at the present level is an advantage, though this does not afford adequate protection against the growing industry of an enterprising rival.[1]

As observed already, it is in respect of the second group of commodities, namely linseed, oil-seed cake, woollen carpets and rugs, and pig-iron (besides rice and paraffin wax before the separation of Burma) that preference has been of the greatest value in increasing the United Kingdom's intake of Indian exports as well as India's relative share of the United Kingdom market.

The preference on linseed was, indeed, partly nullified by the introduction in November 1934, by notification of the Commissioners of Customs and Excise, of a system of drawback with retrospective effect in respect of linseed and linseed oil imported after 22 May 1933. Under these orders a refund of duty paid on foreign linseed used in the manufacture of various classes of exported products was given. The amount of drawback—18s. per ton of linseed—worked out to a refund of nearly the whole of the duty but by no means completely neutralized the value of the preference. In respect of large quantities of linseed used in the manufacture of goods for domestic consumption no drawback was admissible: between 1934 and 1936 it has been estimated that 84 per cent of the total imports, or an annual average of 201,000 tons, of which 70 per cent was contributed by India, was consumed at home.[2] The withdrawal of the drawback concession under Article 6 of the new Agreement in respect of all goods other than linseed oil, unmixed, is estimated to affect half the trade at present eligible.[3] The preference may thus be expected to be more

[1] Exports of castor seed from Brazil have risen rapidly in recent years, in contrast to the declining trend of Indian exports, and in 1936 and 1937 they were more than twice as heavy as the shipments from India, who was the leading exporter up to 1934. Exports from Brazil actually went up from an average of 18,000 tons per year during 1930 to 1932 to 100,000 and 118,000 tons respectively in 1936 and 1937. Indian exports declined meanwhile from 92,000 tons on an average during the earlier period to an average of 54,000 tons from 1935 to 1937 (Imperial Economic Committee *Vegetable Oils and Oil-seeds*, 1938, p 45)

[2] *Memorandum on the New Trade Agreement*, 1939, p 24

[3] ibid, p 25. Mr Cross, the British Government spokesman on the Trade Agreement, stated in the House of Commons that the only possible gain to India from the modification of drawback orders seemed to be in the item of 13,000 tons of linseed used in the manufacture of linoleum (*Statesman*, 4 May 1939)

fully effective than it has been hitherto, though the Argentine will continue to compete on equal terms with India in respect of a small range of the trade. Other commodities in this group require little further comment.

Turning to the third group, it is only necessary to reiterate the conclusion in regard to tea, already mentioned, that the Export Regulation Scheme has been a greater boon than the preference, which is, however, useful for maintaining India's position in the world's principal tea market. Because of the peculiar conditions of trade and the nature of competition in the United Kingdom market, the preference cannot be of more than a limited value.

The same remark applies broadly to ground-nuts. But on account of the less specialized character of the trade in this article and the absence of any co-ordinated control over it, the danger of loss through specially favourable treatment of British West African imports in the absence of preference for Indian imports is much greater. Since there have been little or no imports of ground-nuts from non-Empire sources during the last four years, it is difficult to understand how 'serious objection has been taken by Indian interests' to the payment of drawback on ground-nuts used in the manufacture of exported ground-nut oil, or how the provisions in the new Agreement withdrawing the concession 'have greatly increased the value of the preference accorded to Indian ground-nuts'.[1]

It has been noted that the competition which ground-nut exports have to face comes from very wide and varied sources Attention may be drawn in this connexion to the recommendation of the Sub-committee of the Imperial Council of Agricultural Research that a duty on all foreign imports of vegetable and animal fats may be levied to render the preference on Empire products effective[2] That might, however, involve too great a restriction of imports to be considered practicable The imposition of duty in April 1935 on foreign soya beans which come into more direct competition with ground-nuts helped to reduce their imports from 177,000 tons in 1934 to 82,000 tons in 1936 and 99,000 tons in 1937. Imports of cotton seed have, however, continued to mount,

[1] *Memorandum on the New Trade Agreement*, p 26
[2] See above Chapter V, 4

increasing from 429,000 tons in 1932 to 672,000 tons in 1937. In the second Departmental *Report* on the working of the Scheme of Preferences the failure of Indian ground-nuts to make greater progress in the United Kingdom market than they did was stated to be ' due mainly to the competition which ground-nuts have to meet in the United Kingdom market from soya beans and cotton seed '. In the Memorandum on the new Agreement, however, it is observed that the proposal to secure a guaranteed preference on cotton seed was not pursued as it was considered ' unlikely that such a concession would promote the substitution of Indian ground-nuts for foreign cotton seed ' !

The preferences on articles in the fourth group are of primary interest to other parts of the Empire. India is mainly interested in them with a view to securing parity of treatment with the rest of the Empire.

Free Entry

Most important among the commodities entitled to free entry, irrespective of origin, is raw jute. Jute is a monopoly of India and in India of a few eastern provinces. It is employed for the most part as a packing substance for the staple articles of international trade. As such its demand is peculiarly susceptible to variations in the activity of trade, and is often indeed a good index of those variations. Recently paper has been increasingly used to replace jute and a ceaseless search continues for efficient alternative fibres, but so far no effective commercial substitute has been discovered. Exports from India during the six years 1932-3 to 1937-8 were 563, 748, 752, 771, 821 and 747 thousand tons respectively, of which 130, 177, 166, 166, 189 and 145 thousand tons respectively were consigned to the United Kingdom. The United Kingdom on her side derived 135, 169, 195, 173, 182 and 193 thousand tons respectively during the six years 1932 to 1937, almost all from India. As things are, an import duty on raw jute—which forms the base of the Dundee jute manufacturing industry—in the United Kingdom appears out of the question.

At first jute was mainly exported from India in a raw form but exports of manufactured jute goods have continuously

expanded. During the quinquennium 1907-8 to 1911-12, the average annual value of exports of raw jute was Rs. 18·19 crores as against Rs 16·83 crores of manufactures. In 1937-8, the value of manufactured exports had risen to Rs. 29·08 crores as against Rs. 14·72 crores worth of exports of raw jute.

Lac enjoys an indirect preference arising from the duty levied on the synthetic substitutes of this natural product. It is a practical monopoly of a few districts in India in Bihar. The United Kingdom imports—120, 108, 170, 439, 93, 133, and 179 thousand cwt. in the seven years 1931 to 1937—were all derived from India. The extreme fluctuations in the course of the lac trade are due to the 'meteoric rise (in 1934) and catastrophic fall (in 1935) of the London shellac pool'. The recent experience of wide oscillations in the trade has drawn pointed attention to the uncertain nature of the demand for this valuable product—which possesses undoubted technical superiority over its rivals—unless steps are taken to organize its marketing on a scientific basis. It seems that co-ordination of production and sales would go much farther than mere preferential margins to establish this highly useful commodity on a firm basis in the varied industrial demand which its growing uses make possible. The manufacturing activities of the consuming industries necessitate a steady supply of a standardized product at a price level equitable to producer and purchaser alike.[1]

India has a monopoly of the supply of myrobalans to the United Kingdom market, imports from foreign countries being negligible. The quantity of imports, in most years entirely derived from India, has been 577, 614, 598, 669, 684, 627 and 665 thousand cwt. in the seven years from 1931 to 1937. An indirect preference of greater or less degree has accrued on this commodity, owing to the imposition of duty on some other tanning substances like quebracho extract, chestnut extract and wattle bark for various periods The value of preference and the danger of competition are, however, alike mitigated by the fact that the field of competition of different tanning substances is strictly limited

The sunn hemp of India (*Crotalaria juncea*) is nearest in its characters to the true hemp (*Cannabis sativa*), the oldest material

[1] *Report of the Shellac Research Bureau for 1934-5*

for the manufacture of cordage. Other competing fibres are manilla, sisal, Mauritius hemp and New Zealand hemp or phormium fibre. Free entry for all varieties of hemp, whatever the country of origin, was secured at the Ottawa Conference as some improvement over the state of affairs under which all kinds of hemp other than true hemp had been subject to a duty of 10 per cent when imported from non-Empire countries. Free entry for Indian hemp was thus assured, whereas it had been impeded before in the case of certain stocks held at a few continental centres and consigned therefrom to the United Kingdom.

The main competition for Indian hemp comes from the soft Russian type, and if imports of such true hemp could be clearly distinguished and removed from the free list, a considerable scope might open up for expansion of exports of sunn hemp to the United Kingdom. But two significant developments in the cordage industry of the United Kingdom should be noted here: the manufacture of heavy cordage has tended to increase relatively to that of small cordage for which soft fibres are naturally adapted and principally employed; hard fibres have been increasingly used even in the diminishing production of small cordage.[1] In this respect a striking feature of the United Kingdom import trade in hemp fibres has been the remarkable advance of sisal from British East Africa.

The facts of the trade in regard to the relative position of different sources of supply are as follows. Imports from India went up from 3·9, 1·8 and 3·4 thousand tons respectively in the three years 1930 to 1932, to 7·4, 9 and 12·6 thousand tons respectively during 1935, 1936 and 1937: total imports increased from 78,000 tons on an average during the first three years to an annual average of 98,000 tons during the last three years: imports from the whole Empire increased between the two trienniums from 18,000 to 43,000 tons: imports from foreign countries suffered an actual small decline from 60,000 to 55,000 tons. It appears thus that over and above competition from the true and soft varieties of Russian hemp, Indian hemp has to reckon with strong competition from within the Empire.

[1] Imperial Economic Committee. *Twenty-fourth Report on Hemp Fibres*, 1932, p. 69.

(b) *Imports*

The following table sets out the relative importance of the United Kingdom and other countries as sources of supply for the various heads of imports on which preference has been granted to the United Kingdom, arranged in order of the percentage of imports from the latter country.

TABLE LIII

Imports of Articles Preferred under the New Agreement into India excluding Burma, 1937-8

(Rs lakhs)

	United Kingdom	Percentage	Other Countries	All Countries
Cycles and parts	88	*74*	30 6	1,18 6
Iron or steel-barbed or stranded wire or wire rope	24 1	*67*	11 9	36
Cement n o s	3	*64*	1 7	4·7
Sewing and knitting machines	48 2	*59*	33 8	82
Electrical instruments, apparatus and appliances	1,31 7	*59*	93 2	2,24 9
Paints, colours and painters' materials, as specified and all sorts n o s . .	49 8	*58*	33 4	83 2
Motor cycles and scooters and parts	2 6	*55*	2 1	4 7
Instruments, apparatus and appliances, other than electrical, all sorts n o s, including photographic but excluding scientific, philosophical and surgical	39 2	*54*	33 3	72 5
Copper, wrought, and manufactures of copper, all sorts n o s	44 7	*52*	41 4	86 1
Chemicals, drugs and medicines, all sorts n o s	1,61 7	*47*	1,83 2	3,44 9
Iron or steel hoops and strips	38	*44*	47 3	85 3
Drugs and medicines containing spirit	15 5	*42*	21·8	37 3
Motor-cars, including taxi-cabs, and parts thereof	1,36 2	*40*	2,04 9	3,41 1
Fents	16	*37*	27·3	43 3
Wireless reception instruments and apparatus and parts	9 4	*28*	23·6	33
Parts of mechanically propelled vehicles, n o s, motor omnibuses and chassis	75 7	*28*	1,90 3	2,66
Woollen carpets, floor rugs, etc	3	*9*	29 5	32 5
Domestic refrigerators	0 3	*3*	10 9	11 2
Total	8,87·1	*47*	10,20 2	19,07 3

The general fact which emerges from the above table is that preferences to the United Kingdom have been confined to heads of imports in which the keenest competition is met with by United Kingdom exporters. In the footnotes to pages 131 and 133 will be found the names of commodities enjoying preference under the Ottawa Agreement of which 32 per cent or less or 64 per cent or more came from the United Kingdom in 1932-3. A comparison of those lists with the above table will show that most of the commodities in respect of which the United Kingdom position was exceptionally strong or weak have been omitted from the scope of preferences under the new Agreement. The grant of preferences has been restricted to a relatively few 'really competitive lines of imports selected, say, from among the third group of commodities considered at the end of Chapter VII, where a preference might confer substantial benefit on the United Kingdom', as suggested in Chapter X above.

There are two ways of obtaining a fair agreement: either by attempting to establish more or less equality of gains on both sides, or by trying to ensure that either side secures the necessary concessions without disproportionate cost or sacrifice and with a net gain on the whole. It is in the latter aspect that the Agreement may be regarded from the point of view of India.

Cost of Granting Preferences

Now, keeping in view the strictly relative sense of the terms 'loss of revenue' and 'burden on the consumer' as explained in Chapter VII, 4, and the fact that the preferences now under consideration have been selected from among the third group of commodities in respect of which little loss of revenue or burden on the consumer was found to exist, it does not appear that the grant of preferences would involve any appreciable direct cost or sacrifice. Most of the commodities in respect of which a relatively large direct cost was involved under the Ottawa Agreement—commodities of which one-third or less were derived from the United Kingdom—have been excluded from the preferential list.

The real cost of granting preferences must be looked for in the widespread practice of discrimination in favour of one

seller against all competing sellers over a keenly contested range of import trade, which necessarily undermines India's ability to secure equality of treatment for her export trade abroad.[1] In other words, the real cost of special facilities for sale of Indian exports in the United Kingdom is inability to secure removal or reduction of special facilities for exports of other countries in other markets Whether the gain outweighs the loss depends upon the general temper of the world and the trend of commercial policy.

If the tone of economic and commercial policy appears responsive to liberalizing stimuli, if important countries appear willing enough to relax the rigour of their restrictionist and discriminatory régimes and allow more scope for the normal operation of economic forces, it may be well worth while to abandon exclusive advantages for Indian exports in return for release from the obligation to grant reciprocal favours. If, on the other hand, commercial policy is impervious to expansionary influences, one would naturally seek to preserve the shrunken remnant of trade through special concessions for special concessions.

The above are general observations of broad significance. In practice, a country must decide its policy on a careful consideration of the opportunities open to it in various markets and the price necessary to secure them. In this aspect, the present would hardly appear to be an opportune moment for India to seek to forgo the benefit of preferential entry for her goods to her principal market, which is also the world's first emporium for raw materials.

Equality and Inequality

At this stage it is pertinent to observe that the scrapping of reciprocal preferences between the United Kingdom and India will not automatically restore the *status quo* before Ottawa. The resulting position in regard to the tariff treatment of each other's goods will differ vitally in the two countries.

[1] For it is in proportion as India eschews preferences and privileges in her import tariff that she could demand fair and 'equal' treatment for her own exports The common idea of distributing advantages to foreign countries on the import side sometimes appears uncommonly naïve It is not possible simultaneously to prefer all countries In general, preference implies penalization of imports from non-preferred sources

On the side of India, the abolition of preferences will mean the restoration of equality—the basis of all fair trading: on the side of the United Kingdom—unless that country abandons her policy of according general preferences to imports from the Empire—a position of inequality for Indian exports in relation to other Empire exports will come to exist. Such a position will naturally be characterized as invidious. So in fact it may be. But India could not probably claim the benefit of preferences which the other Empire countries had secured only by the grant of reciprocal preferences, without making a more or less equivalent return.

There is, on the other hand, a general fact bearing on the relative cost incurred by India and the United Kingdom respectively in the grant of preferences. The proportion of Indian imports of preferred commodities supplied by the United Kingdom under the new Agreement is 47 per cent. The United Kingdom, moreover, enjoys an exclusive preference not shared by any other country in respect of such imports. In comparison, the proportion of United Kingdom imports derived from the Empire in 1937-8 in respect of the first three groups of commodities into which preferred Indian exports have been divided was as high as 82 per cent (of which India's proportion was 58 per cent), and in respect of all the four groups was 59 per cent (India's share being 38 per cent) It also appears from this that a large number of Indian commodities which receive preference in the United Kingdom meet with severe competition on equal terms from within the Empire. This general fact limits at once the possible value of such preferences for India and the sacrifice involved to the United Kingdom in granting the same.

A Fair Deal

Altogether, considering the extent and character of export and import trade covered by preferences and the nature and intensity of competition they have to face, the scope and degree of preferences exchanged appear to make a fair deal on the whole. Only it would be desirable to restrict the range of preferences on either side somewhat still further. India might relinquish preference on a few commodities like coir yarn and mats and matting, undressed leather and made-up jute goods

and withdraw preferences on United Kingdom imports of commodities of which relatively very small quantities are derived from the United Kingdom, such as woollen carpets, floor rugs, etc., domestic refrigerators, wireless reception instruments and apparatus, parts of mechanically propelled vehicles not otherwise specified and chassis of motor omnibuses, motor vans and motor lorries.

(c) *The Cotton Article*

The reciprocal arrangements in regard to the export of raw cotton and imports of cotton piecegoods had remained outside the main framework of the Ottawa Agreement in pursuance of 'the principle that a protected industry is outside the scope of a preferential scheme'. They form an integral and vital part of the new Agreement.

Trends in Textile Trade

It has been seen above how, in furtherance of the objective of 'industrial co-operation' the system of uniform duties on imports of cotton piecegoods from all sources which prevailed until 1930, had by successive stages been replaced by one of wide differentiation in the duties on British and non-British (or Japanese) goods. From June 1936 the rate of duty on British cotton piecegoods was reduced to 20 per cent (except on prints which continued to be taxed at 25 per cent) while that on Japanese imports was maintained at 50 per cent. It may be noted that all through this period of progressive widening of the margin of difference in duties, an uninterrupted decline had gone on in imports from Lancashire, while the trend of Indian production had been consistently and markedly upward. Between 1928-9 and 1933-4, imports from Lancashire dropped from 1,442 million yards to 384 million yards, while Indian production went up from 1,893 million yards to 2,945 million yards. Imports from the United Kingdom improved again to 515 million yards in 1934-5 but dropped later to 403, 307 and 267 million yards respectively in 1935-6, 1936-7 and 1937-8. In the last year Indian production touched the high-water mark of 4,084

million yards, having been latterly assisted by Japan's preoccupation in China. It has also been observed how the amount of the United Kingdom's purchases of Indian cotton as well as the relative share of India of the United Kingdom market has gone up : in terms of bales, the intake of Indian cotton was 281,000 in 1930-1, 167,000 each in 1931-2 and 1932-3, and 342,000, 347,000, 456,000, and 610,000 respectively in the four years following, but dropped to 395,000 in 1937-8.

Unofficial Advisers' Recommendations

The terms of the Cotton Article are best viewed in the background of the above trends of export and import trade in raw cotton and cotton piecegoods. It may be as well, however, to refer to the recommendations of the unofficial advisers and see how they compare with the actual terms of the Agreement. The unofficial advisers proposed 200, 300 and 400 million yards respectively (inclusive of fents, imports into Indian States and re-exports from India) as the minimum, medium and maximum limits of imports of United Kingdom cotton piecegoods as against 350, 425 and 500 million yards (excluding re-exports) embodied in the Agreement. They proposed an immediate all-round reduction of 5 per cent in the tariff on United Kingdom imports, bringing it to 20 per cent on prints (instead of 17½ per cent in the Agreement) and 15 per cent on other goods (as in the Agreement). Should Lancashire trade drop below 200 million yards, a further reduction of 2½ per cent was to be made but was to be restored if Lancashire imports should exceed 300 million yards. Immediate steps were to be taken to check any rise in imports above 400 million yards. As regards raw cotton, the unofficial advisers demanded that the United Kingdom should guarantee a minimum intake of 650,000 bales with an objective figure of one million bales. In this demand they were supported by a careful analysis of the position by the Indian Central Cotton Committee which indicated that it was possible for Lancashire to consume easily up to a million bales. They stipulated, moreover, that of the quantity to be taken by the United Kingdom 65 per cent should be Bengal, Oomras, Berar and other short and fair staple varieties.

It may at once be admitted that in the absence of any objective criterion of fairness it is extremely difficult to balance the relative concessions exchanged in such a case. Nor is it possible to exclude altogether from consideration the state of the total trade between the two countries. Assuming, however, that some sort of an even deal has been attained in respect of concessions on other parts of the trade—and the above analysis gives broad support to this view—a little reflection suggests the following comments on the actual and proposed terms under the Cotton Article.

Any arrangement aimed to afford reasonable satisfaction to both parties should provide for a sizable improvement in the United Kingdom offtake of Indian raw cotton and in the Indian imports of cotton goods from Lancashire. Such an improvement is the *raison d'être* for which an agreement is desired by either party In this context, it will readily appear that the offer of the unofficial advisers in regard to import of United Kingdom cotton piecegoods into India fell short of what might reasonably induce the Lancashire industry to concede the demand for substantially enlarged consumption of Indian cotton made of it. The minimum figure of import from Lancashire was less than the lowest imports in any year, while the minimum offtake of Indian cotton for which a guarantee was sought was higher than the highest level of imports ever touched. It is arguable that the trends of trade must be taken into account: imports from Lancashire have been continuously on the decline, exports of Indian raw cotton have been steadily on the increase for some years (except in the last year or so). But the latter tendency forms no natural counterpart of the former. It is the combined consequence of accident and policy, of a favourable price parity and the deliberate efforts of the Lancashire Indian Cotton Committee That the price parity was really an important cause of the recent increase in the United Kingdom's consumption of Indian cotton is indubitable. If so, it is difficult to maintain that a permanently high level of demand for Indian cotton in the United Kingdom can be sustained, irrespective of parity conditions, now that the parity is less favourable than before and exports to the United Kingdom have actually receded far from the pitch attained in 1936-7.

An Exchange of 'Unequal' Concessions

But, on the other hand, the actual terms of the Agreement too in respect of exports of raw cotton and imports of cotton piecegoods depart far from what the existing levels of trade might justify. The minimum import figure of 350 million yards, a fall below which is to be counteracted by a reduction of the (reduced) basic rates, is higher than imports in the last complete year before the Agreement, namely 267 million yards in 1937-8, by nearly one-third. And this further tariff reduction will remain in force until the imports in any year exceed the actual imports in 1937-8 by nearly 60 per cent, while the ordinary tariff reduction may continue in force until imports reach nearly double the existing level. Of course, the maximum yardage figure is to be calculated with reference to the extent by which exports of Indian raw cotton fall short of certain defined limits. But the ordinary tariff reduction will remain in force even if the United Kingdom takes no more than the existing relatively low level of exports of Indian cotton, nearly 400,000 bales in 1937-8. Moreover, with imports of Indian cotton at this level, the United Kingdom may export anything up to 450 million yards (500 million yards reduced by 25 million yards for every 50,000 bales of deficiency below 500,000 bales) or two-thirds as much again as the existing low level of her exports to India. Further, if only the United Kingdom takes 500,00 bales of Indian cotton, or a quarter as much again as her offtake in 1937-8, she may import up to 500 million yards or nearly double the existing quantity of imports, at basic rates

There is, of course, the undertaking of His Majesty's Government in the United Kingdom to stimulate the consumption of Indian cotton in all possible ways. Judging from the past record of the efforts of the Lancashire Indian Cotton Committee it may be hoped that a sincere attempt will be made to fulfil the undertaking. Moreover, in view of relatively swift improvement in the Indian cotton textile industry, the phenomenal advance in Indian production and the steep decline in imports from Lancashire, not arrested by the reduction of 5 per cent in the tariff in June 1936, it appears unlikely that imports from Lancashire will attain a permanently higher level than at present.

The immediate prospects appear favourable however.[1]

It would have been preferable if the question of the requisite amount of protection in accordance with accepted canons of discrimination had been referred to the Tariff Board, and the arrangements embodied in the Agreement with Lancashire and Japan were based on a clearer knowledge than was available otherwise of the fundamental requirements of the Indian industry and scope for accommodation of conflicting claims to the Indian market As it is, the tariff over the whole range of imports of cotton manufactures is regulated by rule of thumb without close regard to considerations of discriminating protection.

For one thing, at any rate, the whole basis on which reciprocal arrangements were being negotiated between His Majesty's Government in the United Kingdom and the Government of India was upset by the imposition of the additional duty of half an anna per lb. on the imports of long staple cotton, under the Finance Bill presented shortly before the announcement of the Indo-British Agreement. It is indisputable that this constituted a material change in the conditions affecting the degree of protection required by the Indian industry and should have involved necessary adjustments in the terms of the Cotton Article of the Agreement. But no mention of it is made in the Agreement. It will be recalled that in the Bombay-Lancashire or Mody-Lees Pact this necessary assumption underlying the tariff rates provided for therein, was clearly stated The recommendation of the unofficial advisers in this respect that any further indirect taxation or burden placed on the Indian cotton textile industry should call for similar countervailing increases in duty on both British and non-British imports of cotton goods was unexceptionable.

Though no arrangement of this type can afford complete satisfaction, a fairer deal might have been provided by the exchange of concessions actually extended to Lancashire under the Agreement for the concessions proposed by unofficial advisers in regard to the export of Indian raw cotton, or by

[1] Mr Stanley replying to a question in the House of Commons on 2 May 1939 said that reduction in duty was regarded as giving Lancashire a real chance of increasing her sales in India (*Statesman*, 4 May 1939) This view appears to command wide assent in commercial circles

the exchange of terms actually secured in respect of the export of Indian raw cotton for the concessions proposed by the unofficial advisers in respect of imports of Lancashire goods. If either of the recommendations of the unofficial advisers in respect of export or import trade had been incorporated in the Agreement a more acceptable basis for settlement would have resulted.

Iron and Steel

The terms of the Agreement in regard to iron and steel only need to be briefly noticed. The continuance of free entry for Indian pig-iron into the United Kingdom market after 31 March 1941 has been made contingent, at the option of the United Kingdom, on the maintenance by India of import duties on articles of iron and steel no less substantially favourable to the United Kingdom than at present under the Iron and Steel Protection Act, 1934. A reference to Chapter IX will show how differential duties on iron and steel imports into India were first introduced on the recommendation of the Tariff Board of 1926 purely in pursuance of the policy of discriminating protection, which prescribed varying measures of protection against different classes of imports from different sources; how it was made clear at the time that India was not committing herself to extend preference as a matter of policy to protected articles; how this view was emphatically reiterated by the Indian Delegation to the Ottawa Economic Conference who, in addition, viewed the admission of preference into the protective scheme as an incongruity; how in accordance with instructions received from the Government of India the protected articles were excluded from the scope of preferential proposals in 1932; how the free entry of pig-iron and Indian sheet bar into the United Kingdom was secured in return for preference on imports of British galvanized sheet into India under the Supplementary Iron and Steel Agreement; how preference on sheet bar subsequently disappeared; how in 1934 the differentials in duty in favour of the United Kingdom were widened at the same time as the measure of protection was lowered, and the preference on galvanized sheet was continued; how by the Supplementary Indo-British Agreement of January

1935 the free entry of pig-iron was secured by the guarantee in return of all the differential and preferential margins in duty on different classes of iron and steel imports ; and how, finally, in April 1937, pig-iron was placed on the free list and the differential advantage that India enjoyed in the United Kingdom market ceased to exist Now the free entry of pig-iron is sought to be guaranteed, with no actual but only a possible differential advantage, by binding India to maintain as part of an Agreement the existing difference in all the duties on steel imports in favour of the United Kingdom !

APPENDIXES

APPENDIX A

List of Countries with which Bilateral Commercial Agreements (Mostly Promising Most-Favoured-Nation Treatment) have been Concluded by the United Kingdom to which India is a Party, or with which Agreements have been Negotiated Separately on Behalf of India

Afghanistan	Anglo-Afghan Treaty of Commerce, 5 June 1923	Does not provide for most-favoured-nation treatment of goods
Albania	Anglo-Albanian Exchange of Notes, 1925 (Nevertheless clause)	
Argentine	Anglo-Argentine Treaty of 1924 2 February 1925	
Austria	Anglo-Austrian Treaty of 1924 (Nevertheless clause)	
Belgium	Anglo-Belgian Exchange of Notes, Commercial Modus Vivendi, 1898	Does not provide specifically for most-favoured-nation treatment
Bolivia	Anglo-Bolivian Treaty of 1911 (Nevertheless clause)	
Brazil	Anglo-Brazilian Exchange of Notes, 1932	
Bulgaria	Anglo-Bulgarian Exchange of Notes, 1925 (Nevertheless clause)	
China	Tariff Autonomy Treaty and Notes of 20 December 1928	
Colombia	Anglo-Colombian Treaty of 16 February 1866	
Costa Rica	Anglo-Costa Rican Treaty of 27 November 1849	Under certain conditions reciprocal most-favoured-nation treatment is accorded in Costa Rica to goods from all parts of the British Empire
Czechoslovakia	Anglo-Czechoslovakian Treaty of 1923 (Nevertheless clause)	
Denmark	Anglo-Danish Treaties of 1660-1 and 1670	
Egypt	Anglo-Egyptian Exchange of Notes, 13 and 14 February 1937	
Ethiopia	Anglo-Ethiopian Treaties Import Duties in Ethiopia of 1897 and 1909	
Estonia	Anglo-Estonian Treaty of 1926 (Nevertheless clause)	
Finland	Anglo-Finnish Treaty of 1923 (Nevertheless clause)	
France	Indo-French Convention of 1903	Certain specified goods only receive most-favoured-nation treatment

Germany	Anglo-German Treaty of 1924. (Nevertheless clause.)	Subject to denunciation at three months' notice
Greece	Indo-Greek Exchange of Notes, 1926	
Guatemala	Anglo-Guatemalan Treaty of 1928. (Nevertheless clause)	
Hungary	Anglo-Hungarian Treaty of 1926. (Nevertheless clause.)	
Iran	Anglo-Persian Treaties of 1857 and 1903.	
Iraq		Most-favoured-nation treatment is given under Article 11 of the Declaration by Iraq on termination of the mandatory régime
Italy	Anglo-Italian Treaty of 1883, extended to India by convention of 1914.	
Japan	Indo-Japanese Convention of 1934, prolonged in October 1937 until 31 March 1940	
Latvia	Anglo-Latvian Treaty of 1923 (Nevertheless clause)	
Lithuania	Anglo-Lithuanian Exchange of Notes, 1922 (Nevertheless clause)	
Liberia	Anglo-Liberian Treaty of 1848	
Morocco	Anglo-Moroccan Convention of 1856	
Muscat	Anglo-Muscat Treaty of 1891, extended in November 1937 to February 1939.	
Norway	Treaty between the United Kingdom and Norway and Sweden, 1826.	
Panama	United Kingdom-Panama Treaty. (Nevertheless clause)	
Peru	Anglo-Peruvian Treaty of 1850	Provides only for national treatment in respect of trade.
Poland	Indo-Polish Convention of 1931	
Portugal	Anglo-Portuguese Treaty of 1914. (Nevertheless clause.)	
Roumania	Anglo-Roumanian Treaty of 1930. (Nevertheless clause)	
Serb-Croat Slovene State (Yugoslavia)	Treaty between the United Kingdom and the Serb-Croat-Slovene State, 1927. (Nevertheless clause)	
Siam	Anglo-Siamese Treaty of 1925 and November 1927	
Soviet Union	Treaty between the United Kingdom and the Soviet Union (Nevertheless clause)	
Spain	Anglo-Spanish Treaty of 1922, revised in 1927 and 1928. (Nevertheless clause.)	
Sweden	The same as in the case of Norway	
Switzerland	Anglo-Swiss Treaty of 1855	
Turkey	Anglo-Turkish Exchange of Notes, 1930	

United States of America	Treaty between the United Kingdom and the United States of America, 1815	Does not provide for most-favoured-nation treatment, but U S A has a single-line tariff
Union of South Africa	Exchange of Notes between India and the Union of South Africa, March 1938	Subject to three months' notice of termination
Venezuela	Anglo-Venezuelan Treaty of 1825	
Yemen	Anglo-Yemen Treaty of 1934	

The usual exceptions to the most-favoured-nation clause are, of course, admitted in all the above treaties Thus, for instance, the treaty with Latvia does not entitle the United Kingdom or India to claim preferences extended to Russia, Finland, Estonia and Lithuania and the Treaty with Panama excludes preferences extended to the United States of America by the latter Similarly the mutual most-favoured-nation treatment provided for by the exchange of Notes between India and the Union of South Africa is in respect of commodities not eligible for preferential treatment in virtue of one or other of the Ottawa series of agreements.

Nevertheless Clause: Anglo-Albanian Treaty of 1925

3 Nevertheless, goods the produce or manufacture of India or of any of His Britannic Majesty's Dominions, colonies, possessions and protectorates or of any territory in respect of which a mandate on behalf of the League of Nations has been accepted by His Britannic Majesty will enjoy in Albania complete and unconditional most-favoured-nation treatment, so long as India or such Dominion, colony, possession, protectorate or territory accords to goods the produce or manufacture of Albania treatment as favourable as that accorded to the produce of the soil or industry of any other foreign country

(Source. *British Foreign Office Handbook of Commercial Treaties*, *Indian Council of State Debates*—24 March 1933, 12 April 1934, 8 August 1934; 10 April 1935, 20 April 1936; 6 April 1937, 8 April 1938)

APPENDIX B

*Percentage Share of World Export Trade (Gold Value) of Countries Exporting (1) Non-agricultural Primary Products and (2) Agricultural Products**

Exporters of Non-agricultural Primary Products	1929	1932	1935	1936	1937
Mexico	0 86	0·75	1·08	1 01	0 95
Bolivia	0 15	0 08	0·11	0 17	0 16
Chile	0 86	0 26	0 7	0·53	0 76
Peru	0 35	0·29	0·39	0 39	0 36
Netherlands Indies	1 76	1 7	1·64	1 62	2
British Malaya	1 58	1·03	1·69	1 73	2
Iran	0·4	0 5	0 55	0 63	0 62
Latvia	0 16	0 15	0 17	0 18	0 2
Norway	0 6	0 78	0·77	0 80	0 77
Poland	0 96	0 94	0 91	0·91	0 86
Roumania	0 52	0·78	0 75	0 75	0 89
Yugoslavia	0 42	0 38	0 48	0 48	0·56
Total	8·62	7 64	9 24	9 2	10 13
Agricultural Exporters					
Hungary	0 55	0·45	0·69	0·7	0 67
Greece	0·27	0·27	0 35	0 32	0 33
Egypt	0·77	0 7	0 89	0 79	0 76
Estonia	0 09	0 09	0 11	0 11	0·11
Siam	0 28	0 32	0 38	0 37	0 27
Australia	1 79	2 07	2·39	2·4	2·23
Canada	3 71	3 78	4 32	4 83	4 33
Portugal	0 15	0 19	0 21	0 21	0·21
India	3·56	2·76	3 01	3 19	3 07
Brazil	1·4	1 38	1 50	1·51	1·35
New Zealand	0·78	0 84	0 90	1 03	1·01
Bulgaria	0·14	0·19	0·20	0 22	0 24
China	1 97	1 63	1 61	1 63	1 51
Argentine	2·75	2·57	2 36	2·52	2 92
Denmark	1 31	1 58	1·37	1 38	1 3
Lithuania	0 1	0 15	0·13	0·15	0·14
Total	19 62	18 97	20 42	21·36	20 45
Grand Total	28·24	26 61	29·66	30 56	30·58

* *Review of World Trade*, 1936, 1937, Table III The reference made to equal rates of progress in 1936 of the relative shares of agricultural and non agricultural exporting countries on p 20 n 1 was based on figures given in *Review of World Trade* of that year, which have been amended since

Commodity	Unit of Quantity	K	1935 6			1936 7		
			United Kingdom	*Percentage of United Kingdom*	Total	United Kingdom	*Percentage of United Kingdom*	Total
Jute manufactures								
Gunny cloth	million yds		86	7	1,218	133	7 8	1,710
Gunny bags	millions		51	11 1	459	70	12 4	567
Tanned hides	thousand tons		13 6	97	14	17 3	96	17 9
Tanned skins	thousand tons		5 6	89	6 3	6 5	87	7 5
Coir yarn and mats and matting†	thousand cwt	(1	134 (334)	38	659 (552)	116 (386)	44	528 (626)
Teakwood	thousand tons		39 4	68	58 2	45 8	66	69 5
Castor seed	thousand tons		23	37	64	22	48	46
Goatskins, raw	thousand tons		4 4	22	20 1	4 2	23	18
Rice	thousand tons		41	3	1,381	45	3 1	1,443
Linseed	thousand tons		90	55	165	218	74	296
Paraffin wax	thousand cwt		386	36	1,080	339	36	930
Woollen carpets and rugs	million lb		7	75	9 3	7 5	76	9 9
Bran and pollard	thousand tons		208	81	258	247	89	277
Oil-cakes	thousand tons		224	75	300	214	64	336
Tea	million lb		276	88	313	256	85	302
Ground nuts	thousand tons		79	17	474	146	18	791
Pig lead	thousand tons		41	62	65	52	74	70
Tobacco								
Unmanufactured	million lb		11 7	41	28 7	13 3	47	28 5
Manufactured (cigars only)	thousand lb		43	59	73	29	48	60
Coffee	thousand cwt		73	34	216	35	17	211
Spices	thousand cwt		3	1	252	3	1	216
Vegetable oils	million gal		1 17	50	2 36	1 19	41	2 9
Pulses	thousand tons		21	21	99	25	18	137
Manures	thousand tons		17	28	61	17	22	77
Wheat	thousand tons		7	70	10	210	91	232
Barley	thousand tons		3	75	4	5	50	10
Cotton twist and yarn	million lb		0 18	2	9 7	0 15	1	12 1
Magnesite	thousand cwt		61	77	79	72	73	99
Granite sets and kerbs	thousand tons		10	100	10	12	100	12
Other hardwoods	cubic tons		972	91	1,064	1,702	91	1,860
Sandalwood oil	thousand gal		6 6	59	11 2	7 7	51	15 2

* These percentages are based only c

(*a*) Not separately shown in trade re

† Figures within brackets refer to ex

APPENDIX D

Gross Imports of Coffee into the United Kingdom

(1,000 cwt)

From	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
India	32	93	26	80	54	24	89	46	50	45	49	30	79	23
Five-yearly moving average*	—	—	57	55	55	59	53	51	56	44	50	45	—	—
British East Africa	173	177	153	235	250	178	324	290	276	283	133	220	135	157
Five-yearly moving average*	—	—	198	199	208	225	232	239	228	205	174	150	—	—
Empire	214	278	185	320	309	204	418	339	329	337	186	257	219	186
Costa Rica	205	205	202	224	236	239	305	291	227	238	237	180	174	149
Foreign Countries	358	378	293	362	348	355	397	412	413	336	356	226	216	184
Total	572	656	478	682	657	559	815	751	742	673	542	483	435	370
Empire, per cent	37	42	39	47	47	37	51	45	44	50	34	53	53	50
Five-yearly moving average*	—	—	42	42	44	45	44	45	41	45	47	48	—	—
Costa Rica, per cent	36	31	42	33	36	46	36	39	31	35	44	37	40	40
Five-yearly moving average*	—	—	36	38	39	38	38	38	38	38	38	40	—	—

* The figures given under each year represent the average of the figures for the quinquennium which includes the two preceding and succeeding, e g , the figure of the quinquennial moving average under 1926 is the average for the five years 1924 to 1928, under 1927, the average for 1925 to 1929, and so on

1

APPENDIX E

Exports of Non-Preferred Articles from India

(Rs lakhs)

	United Kingdom 1931-2	United Kingdom 1935-6	United Kingdom 1936-7	United Kingdom Increase (+) or decrease (—) in 1936-7 over 1931-2
Textile fibres				
Cotton, raw	1,54	4,52	6,54	+ 5,00
Cotton, waste	16	23	20	+ 4
Hemp, raw	4	17	21	+ 17
Jute, raw	3,11	2,96	3,48	+ 37
Kapok	1	3	4	+ 3
Wool, raw	2,50	1,38	2,01	— 49
Ores and other mining products				
Chromite ore	1	—	1	± 0
Manganese ore	16	39	44	+ 28
Mica	22	39	44	+ 22
Wolfram ore	56	1,27	74	+ 18
Coal	1	—	—	— 1
Hides and skins				
Cow-hides	4	14	27	+ 23
Sheepskins	1	4	8	+ 7
Lac	45	30	54	+ 9
Rubber, raw	27	32	23	— 4
Myrobalans	38	23	19	— 19
Fruits and vegetables	1	7	19	+ 18
Provisions and oilman's stores	7	5	5	— 2
Fibre for brushes and brooms	4	4	3	— 1
Saltpetre	2	4	3	+ 1
Rape seed	19	3	21	+ 2
Cutch and gambier	2	2	3	+ 1
Total	9,82	12,62	15,96	+ 6,14 [+6,90 —76]

	Other Countries 1931-2	Other Countries 1935-6	Other Countries 1936-7	Other Countries Increase (+) or decrease (—) in 1936-7 over 1931-2
Textile fibres				
Cotton, raw	20,29	29,26	37,87	+17,58
Cotton, waste	17	47	56	+ 39
Hemp, raw	23	43	48	+ 25
Jute, raw	8,06	10,75	11,29	+ 3,23
Kapok	6	4	4	— 2
Wool, raw	28	72	85	+ 57
Ores and other mining products				
Chromite ore	1	8	6	+ 5
Manganese ore	40	94	88	+ 48
Mica	18	45	50	+ 32
Wolfram ore	6	14	35	+ 29
Coal	53	17	20	— 33
Hides and skins				
Cow-hides	72	84	82	+ 10
Sheepskins	5	10	7	+ 2
Lac	1,39	1,28	1,80	+ 41
Rubber, raw	18	57	81	+ 63
Myrobalans	28	24	18	— 10
Fruits and vegetables	89	1,57	1,51	+ 62
Provisions and oilman's stores	32	22	23	— 9
Fibre for brushes and brooms	17	18	17	± 0
Saltpetre	9	10	9	± 0
Rape seed	54	23	33	— 21
Cutch and gambier	2	3	3	+ 1
Total	34,92	48,81	59,12	+ 24,20 [+24,95 —75]

	All Countries 1931-2	All Countries 1935-6	All Countries 1936-7	All Countries Increase (+) or decrease (—) in 1936-7 over 1931-2
Textile fibres				
Cotton, raw	21,83	33,78	44,41	+ 22,58
Cotton, waste	33	70	76	+ 43
Hemp, raw	27	60	69	+ 42
Jute, raw	11,17	13,71	14,77	+ 3,60
Kapok	7	7	8	+ 1
Wool, raw	2,78	2,10	2,86	+ 8
Ores and other mining products				
Chromite ore	2	8	7	+ 5
Manganese ore	56	1,33	1,32	+ 76
Mica	40	84	94	+ 54
Wolfram ore	62	1,41	1,09	+ 47
Coal	54	17	20	— 34
Hides and skins				
Cow-hides	76	98	1,09	+ 33
Sheepskins	6	14	15	+ 9
Lac	1,84	1,58	2,34	+ 50
Rubber, raw	45	89	1,04	+ 59
Myrobalans	66	47	37	— 29
Fruits and vegetables	90	1,64	1,70	+ 80
Provisions and oilman's stores	39	27	28	— 11
Fibre for brushes and brooms	21	22	20	— 1
Saltpetre	11	14	12	+ 1
Rape seed	73	26	54	— 19
Cutch and gambier	4	5	6	+
Total	44,74	61,43	75,08	+ 30,34 [+31,28 —94]

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